

## E-Plus Homeowners Group

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British Columbia Utilities Commission  
6th Floor – 900 Howe Street  
Vancouver, BC V6Z 2N3  
**Attention:** Laurel Ross, Acting Commission Secretary

Dear Ms. Ross

**Re: British Columbia Hydro and Power Authority (BC Hydro)  
2015 Rate Design Application  
Decision and Order G-5-17 (the “Order”), January 20, 2017**

### **1.0 Application for Reconsideration**

E-Plus Homeowners Group (EPHG) is a registered intervenor in the subject RDA representing the interests of residential E-Plus customers. Pursuant to the provisions of the Utilities Commission Act EPHG write to apply for reconsideration and variance of that part of the subject Order G-5-17 dealing with the Residential E-Plus rate (RS 1105), which reads as follows:

from Part 3.2.2, page 28 of the Order -

***“The Panel has determined that it is appropriate to phase out the residential E-Plus rate program over five years commencing April 1, 2017.”***

and from Part 3.2.2, page 29 of the Order.

***“To reduce the immediate financial impact and spread the bill impacts to E-Plus customers over a reasonable length of time, the Panel has set a five-year period for phasing out RS 1105. Accordingly, the Panel directs BC Hydro to submit a compliance filing within 30 days of the date of this decision which outlines a proposal for achieving the five-year phase out of the E-Plus program and results in rates being charged to E-Plus customers at the end of the five-year phase-out period which equate to other British Columbia residential customers at that time. Further, the Panel also directs BC Hydro to waive the requirement of having an alternative heating system in working order and eliminate the possibility of service being interrupted as proposed by BCSEA over this transition period.”***

For reasons explained in this letter EPHG believe that in making their Decision and Order the Commission Panel made a significant error in relying to a large degree on financial considerations, specifically residential E-Plus customers costs vs savings relating to the E-Plus rate, that were incorrect or incomplete and as a result has issued an Order that imposes undue and unjust financial hardship on those customers.

EPHG believe that a more thorough examination of the above mentioned financial considerations will support the need for a variance to the Order to mitigate its financial impact on residential E-Plus customers. For reasons that will be explained, EPHG believe that the appropriate remedy is to extend the phase out period to 10 years with the majority of the rate cost increase deferred until the later years of the transition period.

## **2.0 Background**

In their 2015 Rate Design Application BC Hydro proposed to maintain the Residential E-Plus rate but to implement changes to their business practice and rate language that would increase the number and length of opportunities they would have to interrupt heating electricity provided under the rate. They did not propose to phase out E-Plus, stating that they had considered this alternative but rejected it because of the large impact on customer's bills.

EPHG argued that the changes BC Hydro proposed to their business practice and rate language were not in keeping with commitments made earlier to E-Plus customers, and were in fact unreasonable. As one example the proposed reduction of the notice period for long term interruptions from 30 days to 2 days would have been intolerable for a generally elderly group of customers. In this respect, EPHG pointed out that customers would have been "trapped" in their homes, afraid of the consequences of an interruption being imposed while (for example) they were in hospital or visiting grandchildren and unable to react quickly. EPHG maintained that if the existing program was indeed unworkable as argued by BC Hydro, that was not the fault of E-Plus customers and they should not be required to suffer as a result of modifying it. EPHG argued that the program should instead be left to end naturally by attrition which was happening rapidly with an aging customer base because transfer of the rate to new purchasers of E-Plus homes had been ended in 2008.

**The Order made by BCUC to phase out the E-Plus rate within 5 years was unexpected, being inconsistent with proposals made by BC Hydro in the RDA to retain but modify the rate.** Thus a potential phase out was not the focus of the evidence and arguments presented by either BC Hydro or EPHG, the two parties directly affected by the outcome of the RDA. While EPHG did address at some length the costs and savings relating to customer's experience with the E-Plus rate, this was framed in response to BC Hydro's proposed changes to E-Plus business practices and rate language.

BC Hydro's response to BCUC IR 2.146.2 indicates the degree to which arguments and evidence were influenced by this understandable focus on the proposals they had made in the RDA, rather than on the financial impact of a phase out on E-Plus customers:

***"BC Hydro does not have any estimates of what it would cost to provide the most economical back-up service, either today or in 1990. Even if BC Hydro has this information it is very likely that the relative economics would differ among customers based on their unique characteristics. Regardless, BC Hydro is proposing to maintain the E-Plus rate. As a condition of the rate, customers are required to maintain***

*their existing back-up heating systems. Thus questions of either the cost of maintenance or the cost of a new system do not appear to be especially relevant. Customers have a choice of whether to continue taking the E-Plus service.” [emphasis added]*

Furthermore, a potential phase-out was not the primary focus of Information Requests from either the BCUC or intervenors.

As a result of these factors there was no detailed, in depth examination of evidence or hearing of arguments relating to a potential phase out of E-Plus. Most importantly, in terms of this Application, there was not a thorough examination of the financial factors that enter into the “cost/savings equation” that apparently became one of the primary bases of the Commission Panel’s Decision and Order as it related to the E-Plus rate.

### **3.0 Cost/Savings Equation for E-Plus Customers**

The Order identifies the perceived savings enjoyed by E-Plus customers compared to their costs in joining the program (the “cost/savings equation”) as a key factor, possibly the major factor, that influenced the Commission Panel’s Decision and Order. A paragraph from Section 3 page 28 of the Order reads as follows:

***“The Panel notes that the estimated savings from 1987 through 2007 for a median E-Plus customer was \$6410, an amount that continued to grow from 2007 to the present. The Panel also notes BC Hydro’s response to BCUC IR 2.146.3 which stated that an E-Plus customer consuming at the median of the E-Plus class consumption has an expected F2016 annual energy charge of approximately \$1400, in comparison to an annual energy charge of approximately \$2140 if this same customer were fully under the RIB rate. Given the differential between an E-Plus customer’s annual energy charge and the annual charge under the RIB rate, it appears that an E-Plus customer’s annual savings in 2016 alone is estimated at close to \$700. These savings exceed the estimated \$1300 - \$2800 conversion cost ranges suggested by BC Hydro which none of the parties contested. Given these circumstances, the Panel concludes that a typical E-Plus customer has recovered far more in savings than what was originally expended.”***

EPHG submit that this paragraph, which outlines key information relied on by the Panel in making their decision, reflects an incomplete and an inaccurate view of both the cost to the E-Plus customer and the savings realized, based on the following facts:

- **Value of Savings to E-Plus customers**

EPHG understand that the “*estimated savings*” reported prior to 2007, and the assumption that these “*continued to grow*” after that time are based on a comparison of E-Plus rates to “regular” rates for electrical heat (Reference: 2007 Rate Design Application, Phase 1, Decision, October 27, 2007, Clause 4.2.4.4 , page 128). Such a comparison is not an appropriate basis

for determining savings. If the E-Plus program had not been offered, many perhaps most of those who chose electric heat at that time would not have done so due to its high cost at regular rates. They would have chosen other heating systems that they thought were more economical, less expensive to install or offered some other advantages to them, such as oil, wood or propane heat (at that time NG would not have been available to them). In later years, when NG became available in more communities many would have taken the opportunity to switch to that fuel, had they not joined the E-Plus program. Others may have installed heat pumps as that technology developed.

Therefore any calculation of “savings” would have to be based on a comparison of what individual customers paid for E-Plus electric heat versus what they might have paid if they had not joined the program, or if it had never existed. The 2007 Decision in fact recognized this argument and (on page 129) provided some of this type of comparative information from a third party:

*“Teresen estimates that the savings for E-Plus customers compared to propane at Revelstoke and to furnace oil on Vancouver Island in the years 1994 to 2007 would have been in the order of \$2123 and \$3309 respectively”*

These estimated savings over 14 years, based on comparisons to other heating options, are considerably less on an annual basis, than the “estimated savings” referenced by the Panel in their Order.

In fact, any attempt to calculate savings by E-Plus customers is problematic as many years have passed, relative costs of different forms of heating have changed continuously and circumstances such as the date of entering the E-Plus program vary widely among individual customers. Some customers might have saved the amounts suggested in the Order, but in other cases, especially in areas where the opportunity to use NG later became available as an option, savings might have been negligible. In any case the figures provided by BC Hydro and relied on by the Panel are at best approximations that would apply to only some of the diverse group of E-Plus customers. **This fact was recognized and discussed at length in the 2007 hearings when BC Hydro acknowledged that they had no actual records of customer costs or savings to support their estimates (2007 Decision, 4.2.4.4, page 129).**

- **Cost of joining and remaining in the E-Plus Program**

The estimate of \$1300 - \$2800 to qualify for the E-Plus program, referred to in the Order, was made by BC Hydro at the time of the 2007 RDA, and they acknowledged this was based on assumptions and not on actual data. EPHG do not consider this range to be an unreasonable estimate of the basic cost (in 1987 dollars) of qualifying for E-Plus at the time the program was introduced, but note that it **does not necessarily apply to all customers nor does it represent the total cost of belonging to the program.**

This estimate would have been sufficient, for example, to install a single woodstove for back-up heat which was the initial choice for the largest number of E-plus customers, or to add an electric heating element to an existing oil furnace. But based on BC Hydro's firm, written assurances that E-plus was a permanent program many customers have spent considerably more and gone beyond those most basic requirements of qualifying for the rate, for example installing second wood stoves, masonry chimneys, or other enhancements. Additionally they have spent money maintaining their systems, over almost 30 years in some cases. This would include everything from maintaining backup fuel supplies and cleaning chimneys to full replacement of backup systems that did not meet current codes or had deteriorated with age. In many cases total costs to E-Plus customers in these areas would be several times the numbers apparently relied on by the Commission Panel in writing the Order. But these costs are far overshadowed by additional costs, as follows, that were apparently either not considered at all or dismissed by the Panel.

- **Cost of Exiting the E-Plus Program**

With the phase out of E-Plus rates former customers who retain electric heat will be faced with a median bill increase of about \$740/year, according to BC Hydro estimates repeated in the Order. Total heating costs will be high by any measure and far beyond some alternatives. For example, the cost of fully priced electric heat at regular rates is about 2.5 times that of heating with NG, an additional \$1150 per year in a representative home (Ref: Fortis "Home Energy Calculator, for a 2400 ft<sup>2</sup> home on Vancouver island, with average insulation, comparing electric to gas furnaces, both greater than 15 years old.).

E-Plus Homeowners will respond to this new reality in a number of ways. Initially the use of backup systems will no doubt increase, but these are rarely optimized for long term use, may create wood smoke or require burning fossil fuels and likely require increased labor or monitoring. Many, particularly those where NG has now become available, will consider the substantial Capital investment required to convert to another form of heat. Others will consider installing heat pumps or emerging technology such as solar panels to help lower costs. All of these options are expensive. Costs will vary with home design factors such as available space, existence of heating vents and chimneys etc., but could easily run to the \$10,000-- \$15,000 range. Some home designs such as those with baseboard heating (where no heating ducts exist) and built on concrete slabs (making ducts difficult to install), will present almost insurmountable problems. **It is entirely possible that in many cases the cost of exiting E-Plus alone will surpass many years of "savings" while on the program.**

- **Financial impact of loss of transferability**

As a result of the Order flowing from the 2007 Rate Design Application the transfer of the E-Plus rate to new owners when qualifying homes were sold was ended in 2008. This had a substantial impact on the value of E-Plus customers' homes as their electric heat turned from

being an attractive, valuable feature of their homes to a future liability (at the time they sell). Prospective purchasers would have to either invest to install alternative heating systems, as described above, or accept a large increase in the cost of electric heat. The median increase in heating cost of \$740/ year would have supported an additional \$12,000 of mortgage at 4% over 25 years. **This loss in home value in 2008 has already impacted any “savings” that E-Plus customers have realized from their time on the program.**

The group most seriously harmed has arguably been those who joined the E-Plus program relatively recently, before transferability ended, and have had only a few years of savings on their heating bills. These customers bought E-Plus homes believing for good reason that they would have the long term advantage of heating costs that were low and close to being competitive with NG . They may have even paid a premium for those homes. Many in this situation feel strongly that they are already in a “losing” position with regard to their investment in E-Plus once the impact of the loss of transferability is factored in.

The above arguments are not based on hypothetical situations or concerns. They are based on facts and reflect the actual experiences of E-Plus customers who are EPHG members. If requested EPHG is prepared to gather and submit supporting statements from individual members in this regard.

**In summary the financial advantages of belonging to the E-Plus program are significantly less than perceived by the Panel as indicated in their Order.** Two important factors that affect this, exit costs and loss of transferability, do not appear to have been considered at all. In some cases E-Plus customers have arguably had negligible gain, or even a loss, when all factors are considered over their time in the program.

EPHG submit that the above facts fully and adequately support the contention that the Commission Panel erred in relying on financial considerations that were inaccurate and incomplete in making their Decision and Order and that this error had a material effect. This Application for Reconsideration should be accepted, and a remedy put in place that will recognize the need for additional mitigation of the financial impact of phase out on E-plus customers.

#### **4.0 An extension of the Phase-Out period to 10 years is an appropriate remedy**

EPHG believe that the need for increased mitigation of the financial impact on E-Plus customers when the E-Plus rate is phased out can best be achieved by extending the phase out period to 10 years, with the majority of the rate cost increase deferred until the later years of the transition period. This extended time would provide a fairer financial outcome for E-Plus customers. It will also substantially lessen the number of customers who will be fully affected by the rate increase, and allow them additional time and opportunities to deal with it

At the same time, by retaining the essential part of the Order which was to establish a firm time frame for the phase out of the E-Plus rate, the Commission will address the long standing concerns of BC Hydro and other interested parties over what has become a very controversial program.

This remedy is requested contingent on the understanding that if an extended transition period is granted the Panel would leave in place that part of their current order which directs BC Hydro to waive the requirement of maintaining an alternative heating system and to eliminate the possibility of service being interrupted during the phase out period. EPHG believe that to do otherwise would be unreasonable.

The factors supporting an extension to 10 years are:

- **A 10 year phase-out has previously been considered appropriate**

A 10 year phase out period for E-Plus was proposed by BC Hydro in the 2007 RDA, at a time when both the absolute and relative amounts of the increase being proposed were far less than is currently the case. They noted that this period of time would allow customers *“to determine their best course of action for the proposed rate changes in the short term and for the eventual elimination of the E-Plus rate in ten years, as well as the opportunity to participate in Power Smart programs to increase their energy efficiency”* (Ref: 2007 Decision, 4.2.4.3, page 126).

A 10 year phase out was one of the possibilities presented in the customer engagement process leading up to the 2015 RDA.

Of the three intervenors who suggested phase out of the E-Plus rate in the 2015 RDA, CEC suggested this could be done over a 10 year period (2015 Decision, 3.2.2, page 27). BCSEA suggested that *“the Commission should set a generous termination date with consideration of bill impacts and the recoupment of alternative investments. The requirement for participants to have an alternative heating system and BC Hydro’s right to interrupt should be discontinued.”* (2015 Decision, 3.2.2, page 27). NIARG did not comment on what period would be appropriate

- **There is a need to mitigate substantial “Rate Shock”**

Arguments and IR responses presented by BC Hydro during the RDA Hearings were based on a stated potential bill impact of about 40 percent if E-Plus were phased out (see for example responses to BCUC IR 2.148.1 and following IR’s). This estimate, for a typical customer, refers to the increase in total electricity cost for the home. EPHG submit that this is not an appropriate measure, the correct measure being the impact on that part of the bill relating to home heating costs which is the issue under question.

E-Plus homeowners live in single family homes and in many cases still do not have access to NG for home appliances (E-Plus was only offered in areas not served with NG in 1987) so it is

generally true that their non-heating power use is significant, and once E-Plus is phased out their entire heating electricity use will be billed at Step 2 rates. Based on the current tariff the increase will be from \$0.05430 to \$0.12430 / kW.h, representing an **increase of 129%** from current rates. It is significant that this would represent an **increase of 271%** (excluding carbon tax) above the E-Plus rate of \$0.03350/kW.h that was in effect at the time the Decision for the 2007 Rate Design was released.

If the increase specified in the current Order is phased in equally over each of 5 years it will represent a yearly increase in heating electricity costs of 26% (in addition to annual general rate increases). EPHG submit that this amount of sustained yearly increase is unacceptable, especially when imposed at relatively short notice. If the rate increase is phased in equally over 10 years the annual increase would fall to a still high 13%.

In their 2007 RDA BC Hydro recognized the problems with such large annual increases. To deal with these, they proposed a 10 year phase out period with relatively small increases over the first 5 years, and the major part of the increase taking place in year 10 ( page 126 and Table 4.7 page 127 of the 2007 Decision). This approach to phase out gives E-Plus customers additional time to benefit financially from the rate before it is lost, as well as more time and opportunity to develop and implement plans to deal with the change before the greatest impact is felt. **EPHG believe that this concept is the fairest approach to mitigate the financial impact of phase out and ask that the Commission direct BC Hydro to follow a similar approach when developing their plans in this instance.**

- **A 10 year phase out allows for additional natural attrition**

One of the arguments presented by EPHG in the 2015 RDA Hearings was that since the end of “transferability” of the residential E-Plus rate in 2008 the rate was ending rapidly by natural attrition and therefore becoming less of an issue. This was based on BC Hydro data that showed that the number of E-Plus customers had dropped over 37% between 2008 and 2016 and that the rate of attrition was in fact increasing, with a drop of 754 customers or 10% between 2015 and 2016 alone. This reduced the total number of customers to only 7427. According to demographic information provided by BC Hydro rapid attrition can be expected to continue. Over 50% of E-Plus customers will be 67 years of age or older in 2017, entering the time when an escalating number will be downsizing homes, moving to other forms of accommodation or dying. An extension of the phase-out period to 10 years would ensure that a large number of current E-Plus customers, perhaps the majority, would be leaving the rate before it was entirely phased out and would not have to absorb the entire financial burden of this change.

- **A 10 year phase out allows additional time and opportunity for customers to implement changes to their homes or heating systems**

As discussed above, with the announced phase out of the E-Plus rate current customers will begin to consider the ways in which they can respond to a coming 129% increase in their heating power rates. Many will look at installing alternate heating systems. Those in areas now serviced by NG will have an obvious incentive to change to that fuel due to the much lower operating costs (although as “late-comers” they will face higher installation costs) while others will look at heat pumps to reduce power use, or at new and emerging technology such as solar panels. All of these involve substantial capital cost as well as time to plan and install.

A great many E-Plus customers are seniors, no longer working and are living on fixed or low incomes. The relief provided by a longer 10 year phase out time, especially if annual rate increases are kept low in early years as proposed, will allow them adequate time to react; to adjust their financial plans to compensate for higher heating costs or to plan and finance home or heating system improvements or upgrades. It is possible NG service will be extended to additional homes during this period. Added time will also increase the possibility that customers will be able to take advantage of any financial assistance that might be offered by BC Hydro or Government during the transition time. **In that respect E-Plus customers are hopeful that new programs for energy conservation or heating system upgrades may be developed and extended to them in the coming years, and EPHG will be advocating for this to happen.**

## **5.0 Reconsideration Process**

As the current Order directs BC Hydro to begin the phase out of E-Plus commencing April 1, 2017, and this Application is of limited scope, EPHG respectfully asks that a process be developed to deal with it expeditiously, including a procedural order establishing the following:

- This application for reconsideration and variance shall proceed directly to phase two of the reconsideration process.
- This application for reconsideration and variance shall serve as EPHG’s submission on the merits of reconsideration and on an appropriate remedy.
- The reconsideration process shall be based on written submissions.

**Gary McCaig** – for E-Plus Homeowners Group