

**Anarchist Mountain Community Society and
Regional District Of Okanagan-Similkameen (AMCS-RDOS)
Response to FortisBC IR No. 1
FortisBC Inc. 2017 Cost of Service Analysis and Rate Design Application**

1.0 Reference: RDOS-AMCS Evidence, Appendix C.

"Most of these testimonials were sent to the RDOS in November and December of 2017 in response to a call for testimonials issued by the RDOS in October."

Page 3 of 3 of the Administrative Report to the RDOS Community Services Committee from B. Newell, CAO dated January 4, 2018, includes under the heading, Release of RCR Impact Testimonials,

"The Regional District is susceptible to the Freedom of Information and Protection of Privacy Act. The expert opinion seems to be that the release of Impact Testimonials would contravene the Act. Knowing the risk, the Board could determine that the benefit outweighs the risk and order release of those documents."

1.1 Please confirm that at the October 5, 2017 the RDOS Board of Directors passed a resolution that included the following components:

- THAT the Board of Directors seek to obtain intervener status with the BCUC on the "2017 Fortis B.C. Rate Design Application" and that administration applies for any funding assistance available to assist with obtaining intervener status and,
- THAT funds be allocated from the Electoral Area Administration cost centre;

RDOS Response

Confirmed.

1.2 Please confirm that, "...funds be allocated from the Electoral Area Administration cost centre" means that RDOS has approved the expenditure of funds to support the RDOS/AMCS intervention in the current process.

RDOS Response

Confirmed, with the intent that any expense incurred that was not eligible for PACA funding would be targeted to the rural areas, but not the incorporated communities that form part of our regional district and may intervene on their own.

1.3 Please confirm that on or about October 23, 2017, the RDOS posted the following on its Facebook page:

Has the Fortis BC Two Tiered Rate System Negatively Affected Your Pocket Book?

The two-tiered rate structure, embedded in the Fortis 2014-2018 Multi-Year Rate Order, increases the cost of electricity after the first 1,600 kilowatts used in a billing period. Unfortunately, for the people who live in rural areas where there are no alternatives to electricity and who live in sub-standard housing that requires more energy to heat, this increase has made it difficult for many residents to pay their utility bills and meet their basic needs.

If your household has been impacted by the Fortis BC Two-Tiered Rate System, the RDOS would like to hear from you. The Regional District proposes to register as an Intervener to the Fortis BC 2017 Rate Design Application to the BC Utilities Commission later this year and are looking to gather supporting documentation on the impacts to citizens to add as supporting documentation in our application.

RDOS Response

Confirmed.

- 1.4 Please confirm RDOS used the above wording in newspaper advertisements seeking testimonials as well.

RDOS Response

Confirmed.

- 1.5 Please confirm that on or about June 19, 2018, RDOS and/or AMCS issued a press release seeking testimonials that “should...describe hardships experienced under the two-tier rate system...”

AMCS-RDOS Response

Not confirmed. Neither RDOS nor AMCS issued a press release on the subject of resident testimonials on or about June 19, 2018.

Reference: RDOS-AMCS Evidence, Page 28.

“More significantly, it is the low-income, high-use electricity customer who is in most need of assistance and the RCR has made matters worse for these customers.”

- 1.6 Please confirm that on page 2 of 3 of the Administrative Report to the RDOS Community Services Committee from B. Newell, CAO dated January 4, 2018, it is stated that, “The Regional District, based on concerns expressed by low-income citizens, has taken a stand against the Residential Conservation Rates (RCR) currently employed by FortisBC since its inception.”

RDOS Response

Confirmed.

- 1.7 Is it RDOS' position that the RCR has a more detrimental impact on customers who consume more electricity than on customers who consume less electricity?

RDOS Response

RDOS believes the RCR has adverse bill impacts, relative to the flat rate, on customers consuming more than 15,000 kWh per year, many of whom use electricity for space and water heating

- 1.8 If the responses to the previous two questions are confirmed, is it the contention of the RDOS that low income customers tend to also be high consumption customers? If so, does the RDOS have any documentation or other evidence to support such a position?

RDOS Response

RDOS contends that there are low income customers who consume more than 15,000 kWh per year because they use electricity for space and water heating. Please refer to AMCS-RDOS Evidence, Section 4.6, pp 27-31.

- 1.9 Has the RDOS received permission from the residents that submitted the Impact Testimonials to provide them to Mr. Marty?

RDOS Response

RDOS provided redacted testimonials to Mr. Marty, relieving it of the need for permission.

- 1.10 Does the RDOS possess any information related to the Impact Testimonials that can be used to verify the claims of impact described?

RDOS Response

The testimonials speak for themselves. The RDOS has no further information to verify the specific claims in each testimonial.

The purpose of the testimonials was to understand how residents have been responding to the RCR in terms of behavioural changes. FBC has not presented information on this in its Evaluation Reports nor in its current Application.

In FBC's response to AMCS-RDOS IR#2, 4.2, FBC stated:

"It is reasonable to assume that customers have responded to the price signal included in the RCR at least to some extent through each of the three response types (i.e. improving energy efficiency, "doing without" behavioural change and switching to a non-electric source of energy). FBC cannot however provide any quantitative assessment of the degree to which each response has contributed to the reduction in energy use attributable to the implementation of the RCR".

The testimonials reveal many customers

- have reduced their consumption by taking non-energy efficiency enhancing measures to the detriment of their own personal welfare and to the environment (by switching from electricity to fossil fuels), and
- deemed to be better off “financially” under the RCR than the flat rate are actually worse off from a total welfare point of view

In sum, the testimonials show the negative impact on high use electricity customers is much greater than what would be determined by solely looking at bill impacts.

By focusing solely on bill impacts and ignoring the many negative welfare impacts, FBC's Evaluation Reports and its current Application have underestimated the adverse impacts of the RCR on customers. It follows that FBC's Application overstates the “adverse” impacts on customers of an immediate return to a flat rate.

The testimonials also reveal that those who rent accommodation that uses electricity for space and water are extremely limited in their ability to reduce their demand through energy efficiency measures and their landlords have no incentive to do so since they are not paying the hydro bills. For renters, the RCR is essentially a tax on their electricity consumption that they have to pay in addition to their rent. Low-income residents are often renters and these residents would benefit from an immediate return to the flat rate.

1.11 Has the RDOS sought testimonials from its constituents that have lower bills dues to the RCR?

R DOS Response

The invitation to citizens to submit testimonials was a general invitation.

Targeting constituents that have lower bills due to the RCR would have provided limited information concerning the way customers have responded to the RCR. FBC found in its 2013 RCR Information Report that 71% of customers (the same percentage that experienced bill reductions) were “not aware” of the RCR (RCR Information Report, October 31, 2013, p 26).

2.0 Reference: December 15, 2017 Email from Mark Pendergraft to Terry Schafer; Bill Newell; Karla Kozakevich Christy Malden and Tom Siddon. The email includes the comments of Mr. Marty,

“The BCUC is a judicial process and I will be making purely technical arguments in the intervention as an economist and energy policy expert.”

2.1 Please confirm that there was an email exchange on December 15, 2017 involving Mr. Marty and RDOS representatives in which Mr. Marty said to the RDOS, as quoted above: “The BCUC is a judicial process and I will be making **purely technical** arguments in the intervention as an economist and energy policy expert.” [emphasis added]

AMCS-RDOS Response

Confirmed

2.2 Please confirm that Mr. Marty noted to RDOS representatives in an email of December 15, 2017: "I stated at the October Board meeting that RDOS could further assist by providing me with resident testimonials on the negative impact of two-tier rates to support my argumentation."

2.2.1 Please confirm that the, "October Board meeting" refers to the RDOS Board meeting held on October 5, 2017.

2.2.2 If confirmed, please also confirm that Mr. Marty's statement accurately summarizes his statement at the October 5, 2017 RDOS Board meeting.

AMCS-RDOS Response

The "October Board Meeting" of RDOS took place on October 5, 2017. Mr. Marty's presentation to the RDOS Board included the following statement:

- To support my "conceptual" arguments, useful if RDOS would provide examples of residents:
 - experiencing major bill hikes that cannot possibly be offset through energy efficiency improvements
 - switching from hydro-electricity to natural gas, wood, propane or heating oil
 - making major sacrifices to keep warm in winter; etc

Subsequent to the October 5th Board Meeting, the RDOS issued a request for testimonials from RDOS residents.

2.3 Please provide the names and either the service addresses or account numbers of the customers that provided testimonials that appear in Appendix C.

AMCS-RDOS Response

The RDOS does not wish to disclose that personal information on the public record.

2.4 Has RDOS-AMCS verified the information contained in the Appendix C testimonials?

AMCS-RDOS Response

See the response to FBC IR#1, Q 1.10.

3.0 Reference: RDOS-AMCS Evidence, Page 3

“FBC claims that there are no adverse impacts of continuing with a modified RCR until 2023 but provides no analysis to support their argument.”

- 3.1 Please provide references to support the statement that FBC claims that there are no adverse impacts of continuing with a modified RCR.

AMCS-RDOS Response

In response to AMCS-RDOS IR#1, Q 7.1, FBC stated:

“FBC’s proposal to phase-in the proposed rate changes mainly relates to the rate design principle number six (rate stability), that is to manage the impact of the rate changes on customers’ bills and to eliminate the possibility of rate shock. The phase-in also ensures that those customers currently paying more under the RCR will receive successively lower bills in each year until the flat rate is the default rate. This will provide them with immediate and incremental benefits during the phase-in period. The proposed phase-in can improve customer acceptance of the new rates but has little to no impact on other rate design principles in and of itself. FBC does not believe that the proposed phase-in approach has any considerable adverse impact on the objectives of reducing GHG emissions or air pollution nor on efficient use of the system (flat rates are considered to be a neutral option - not encouraging or discouraging a particular way of consumption). Further, the phase-in approach has no impact on the principle of avoidance of undue discrimination since as stated in Section 6.1.4.1.2 of the Application, the RCR rates have been found by the Commission not to be unduly discriminatory to begin with”.

- 3.2 Please explain what RDOS-AMCS means by “modified RCR”.

AMCS-RDOS Response

AMCS-RDOS is referring to the RCR that FBC is proposing for the years 2019 to 2022, as presented in Table 6-10, p73, of FBC’s Rate Design Application. In this Table, FBC proposes to continue with the RCR until 2023, with modifications to the Tier 1 and Tier 2 rates while maintaining the same threshold.

4.0 Reference: RDOS-AMCS Evidence, Page 4.

“Monopolies, because they have the market power to set their own prices, will want to maximize revenues by charging prices above cost to those customers least able to reduce their consumption.”

- 4.1 Is it the contention of RDOS-AMCS that utilities, including FBC, propose rates that are intended to specifically impact, “those customers least able to reduce their consumption”? If so, please provide support for this contention.

AMCS-RDOS Response

No. The intent of the above statement is to explain that monopolies need to have their rates regulated to prevent them from engaging in monopolistic price discrimination which economists agree results in economically inefficient behaviour and a misallocation of resources.

Since utilities, such as FBC, have their rate of return regulated, they presumably have no interest in proposing discriminatory rates since they cannot benefit from them in terms of higher revenues. However, the RCR results in rates that closely resemble those that would result from monopolistic price discrimination.

The major difference is that the RCR does not increase the revenue received by FBC but rather “prompts a redistribution of the revenue responsibility from one group of customers to another based on consumption” (FBC response to AMCS/RDOS IR#2, Q 9.4).

5.0 Reference: RDOS-AMCS Evidence, Pages 5, 6.

“The correct implementation of a RIB Rate requires setting different thresholds for different customers to reflect the differences in the ways that electricity is used.”

“...PG&E has 10 climate zones across its service area...”

5.1 Other than in varying the threshold on a geographic basis, is RDOS-AMCS aware of any jurisdiction that utilizes a rate structure incorporating individual customer thresholds?

AMCS-RDOS Response

BC Hydro conducted an extensive examination of rate structures in other jurisdictions as part of its 2008 RIB Application, February 2008, Appendix C.

BC Hydro identified different rate structures, including the Customer Baseline Load (CBL) structure that sets the individual customer thresholds based on a percentage of historic use (2008 BC Hydro RIB Application, BCUC Reasons for Decision, September 24, 2008, Section 3.2) and the Segmentation structure that sets different thresholds for different sub-classes of residential customers defined by their characteristics including, for example location or type of primary heat source (2008 BC Hydro RIB Application, BCUC Reasons for Decision, September 24, 2008, Section 4.2).

AMCS-RDOS has not conducted a survey of utilities to determine the extent to which such rate structures are actually being employed.

5.2 How many different climate zones does RDOS-AMCS consider to exist in the FBC service area?

AMCS-RDOS Response

AMCS-RDOS is not recommending the continuation of the RIB rate, in any form, after January 1, 2019. If the BCUC agrees with this recommendation, there would be no need to set thresholds or rates that vary by climate zone.

5.3 How many biogeoclimatic zones exist in the FBC service area?

AMCS-RDOS Response

Please refer to AMCS-RDOS response to Q 5.2.

5.4 How many Koppen climate types exist in the FBC service area?

AMCS-RDOS Response

Please refer to AMCS-RDOS response to Q 5.2.

6.0 Reference: RDOS-AMCS Evidence, Table 4.1.

6.1 Please describe how RDOS-AMCS arrived at the values in the column labeled, "Percent of Use In Tier 2".

AMCS-RDOS Response

Please refer to AMCS-RDOS Response to BCUC IR#1, Q 2.1

7.0 Reference: RDOS-AMCS Evidence, Page 28.

"The vast majority of low-income customers are better off under the RIB rate because the vast majority of customers are better off."

7.1 Please reconcile the referenced statement made by RDOS-AMCS with the assertion that the RCR exacerbates fuel poverty. If the vast majority of low-income customers are better off under the RIB rate, will the removal of the RCR not adversely impact these customers?

AMCS-RDOS Response

In the UK, fuel poverty is defined by the Warm Homes and Energy Conservation Act as:

"a person is to be regarded as living "in fuel poverty" if he is a member of a household living on a lower income in a home which cannot be kept warm at reasonable cost".

In their study "Energy Costs and Canadian Households: How much are we spending" (March 15, 2016), the Fraser Institute defined energy poverty as "10 percent or more of expenditures going to energy goods".

Using data contained in FBC's response to AMCS-RDOS IR#1, Q 4.1, Table 8.1 compares the total energy bill for two customers in identical houses; one that heats with electricity and one that heats with natural gas. As in FBC's example, both houses use electricity for appliances, televisions and computers, lighting, air conditioning and plug loads. Table 8.1 shows their bills under the current RCR and under the current flat rate.

Table 8.1

Flat Rate = \$.12021/kWh; Customer Charge = \$16.05/month

RCR = Tier 1 = \$.10117; Tier 2 = \$.15617; Customer Charge = \$16.05/month

	Low Income – Natural Gas for Space & Water Heating		Low Income – All Electric	
	Flat Rate	RCR	Flat Rate	RCR
Natural Gas Bill	\$761	\$761	0	0
Electricity Bill	\$1,202 (8,400 kWh)	\$1,043 (8,400 kWh)	\$3,835 (30,300 kWh)	\$4,397 (30,300 kWh)
Total Energy Bill	\$1,963	\$1,804	\$3,835	\$4,397

It is not likely that low income residents live in large houses with hot tubs and an abundance of appliances. The most likely reason why some low income residents are high electricity users is because they use electricity for space and water heating.

Similarly, it is likely that most low income residents that are low use electricity users use non-electric energy sources, such as natural gas, for space and water heating.

As shown in Table 8.1, under the flat rate, the low income customer that uses electricity for space and water heating has a total annual energy bill of \$3835, which is roughly double the total energy bill of the low income customer (living in an identical house) who uses natural gas for space and water heating.

It is the former who is most likely to experience “energy poverty” and not be able to afford to heat his/her home adequately. Yet, it is the former that has experienced major bill hikes under the RCR and is now paying rates that are significantly above the cost of new electricity supply. In this example, the RCR raised the already high total energy bill of the low income customer that uses electricity for space and water heating by 15% to \$4397 (an increase of \$562). Thus, the RCR has increased the likelihood that low income customers who use electricity for space and water heating will be unable to afford to heat their homes; further exacerbating fuel poverty in BC.

The removal of the RCR will alleviate the financial pressure being placed on low income customers that use electricity for space and water heating. In that regard, it would be best if it were done as soon as possible, ideally before the peak winter heating period of December to February. The removal of the RCR will increase the total energy bill of low income customers that are low electricity users.

Table 8.1 shows that the low income customer using natural gas for space and water heating will experience a 9% increase in his/her total energy bill from \$1804 to \$1963 (an increase of \$159). However, this customer’s total energy bill will still be about half that of the low income customer that uses electricity for space and water heating.

The increase in energy bills for low income, low use electricity customers will be the direct result of the termination of the current intra-class cross-subsidization of rates caused by the introduction of the RCR. Many of the customers who will experience a rate increase due to the elimination of the RCR have, for the last 6 years, enjoyed “the benefit of a relative bill reduction without having made any effort towards conservation behaviour” (FBC 2013 RIB Evaluation Report, p 31).

These customers are free riders who have benefitted from millions of dollars in cross-subsidies due to the RCR’s flawed design. Since they have received the benefit of paying less than their fair share of the costs for six years, it is fair for them to start paying their fair share at the start of 2019.

Moreover, some of the customers who will experience a “rate increase” and who are not free riders will actually benefit from the immediate elimination of the RCR. Customers who have reduced their consumption below the break-even point of 15,000 kWh by sacrificing personal comfort, giving up desired electricity-using activities or by chopping wood to burn in the fireplace would benefit from being able to resume their pre-RCR lifestyle without having to pay excessive rates that are above cost.

8.0 Reference: RDOS-AMCS Evidence, Page 30, Resident #150.

“It’s October 2017 and I just recently paid off last year's winter bill, the highest being over \$1300 for 60 days.”

8.1 Please calculate, under the current RCR, the consumption that would be required in order to result in a bill of \$1300 for 60 days.

AMCS-RDOS Response

The current RCR has a Tier 1 rate of 10.117 cents/kWh, a Tier 2 rate of 15.617 cents/kWh and a bi-monthly Customer Charge of \$32.10. GST is 5%. The following table shows the consumption that would be required to result in a bill of \$1300 for a 60 day billing period.

Consumption	Tier 1	Tier 2	Bill (Tier 1 plus Tier 2)	Customer Charge	GST	Total Bill
8,300 kWh	1,600 kWh	6,700 kWh	\$1208	\$32	\$62	\$1302

8.2 Please calculate the bill, under the current flat rate of \$0.11749 per kWh and \$37.40 bi-monthly Customer Charge that would result from the consumption determined in the previous question.

AMCS-RDOS Response

Consumption	Flat Rate	Bill (.11749/kWh)	Customer Charge	GST	Total Bill
8,300 kWh	8,300 kWh	\$975	\$38	\$51	\$1064

9.0 Reference: RDOS-AMCS Evidence, Page 47.

“Sound rate-making and basic fairness requires an immediate termination of the RCR and a return to a Flat Rate, supplemented with optional Time-of-Use rates.”

9.1 If the Commission does not approve a Time of Use rate for FBC residential customers, does RDOS-AMCS still advocate for the termination of the RCR?

AMCS-RDOS Response

Yes.