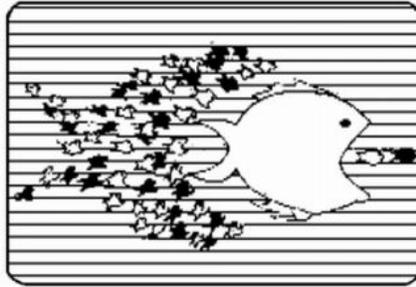


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February 17, 2011

Our File: 7474

Erica M. Hamilton
Commission Secretary
BC Utilities Commission
6th Floor - 900 Howe Street
Vancouver, BC V6Z 2N3

VIA E-MAIL

Dear Mesdames/Sirs:

**Re: Project No. 3698617
British Columbia Utilities Commission (BCUC)
British Columbia Hydro and Power Authority (BC Hydro) Residential Inclining
Block (RIB) Rate Re-pricing Application BC Hydro Reply to Exhibit C6-3**

BC Hydro includes rate structure design as a program option in its DSM plan. From a utility customer perspective a rate structure program is different from other DSM programs in that participation is not voluntary and the effect, a bill impact to encourage energy savings, is always adverse. In other DSM programs customers choose whether to participate or not, the impact of the program is almost always positive, and the cost of participating is usually offset by a utility contribution. There are no offsetting customer contributions in the case of a rate structure DSM program. The affected customer bears the full cost which leads to any associated energy savings. That customer's pain is countered by a bill reduction for customers who consume less electricity – likely because their homes are heated with natural gas.

Bill impacts are of critical concern when considering rate structure DSM programs. The preferred approach is to set reasonable conservation targets for rate design programs which can be achieved with acceptable bill impacts, rather than try to extract as much conservation as possible through the application of marginal cost price signals to the more price-elastic customers within a rate class.

It is our perception, which is reinforced constantly, that the basis upon which each of the two tiers of the RIB is calibrated is not understood by the public. Even assuming that markets for products like household energy respond rationally to pricing information, absent such comprehension the incentive process does not operate as the offering of information about the structure of electricity prices to which consumers will make rational and informed behavioural responses. Instead it tends to operate on the cruder level of inflicting economic pain on higher volume consumers which may directionally encourage them to conserve.

Be that as it may, it is essential that the Commission base its calibration of the rate structure on its best judgment regarding the optimal balancing of conservation incentive and the avoidance

of unreasonable economic pain. Undue reliance upon theoretical constructs may provide a false sense of objectivity or security in setting the rate, and is no substitute for the application of balanced judgment.

In this RIB Repricing Application, BC Hydro is asking that the Commission not make any proportionate changes to the Step 1 / Step 2 relationship, and apply future percentage revenue requirement increases equally to Step 1 and Step 2. The anticipated percentage revenue requirement increases are significant, 45% between 2012 and 2015 and 73% between 2012 and 2018.¹ These increases are more than double those which were anticipated when the original RIB rate application was made, 73% compared with 30%².

BCOAPO fully supports BC Hydro's Proposed RIB Pricing Principle. The anticipated revenue requirement increases over the next several years will certainly inflict adverse effects on all customers, aside from any fine-tuning through rate design. Disproportionately compounding the adverse effect for larger customers by increasing the differential between Step 1 and Step 2, thereby laying a larger part of these revenue requirement increases on customers consuming under the Step 2 rate, is unreasonable under the present circumstances. The dollar impact of adopting CARC + 10% would be as much as \$1,000 annually for the largest customers³. The principal impact would be to penalize households for reliance upon electricity for space and water heating.

In support of BC Hydro's proposal to apply future percentage revenue requirement increases equally to Step 1 and Step 2, the Proposed RIB Pricing Principle, BCOAPO notes the following based on the modeling assumptions included in the Application:

- If the Proposed RIB pricing Principle were applied through to 2018, the conservation run rate will be the same as that achieved by adopting the CARC +10% approach by the year 2018⁴. Since BC Hydro is not planning any future calls for power before 2018⁵, forgoing CARC +10% will not affect long-term power acquisition costs.
- BC Hydro will achieved its conservation rate target of 1,422 GWH/year set out in the 2008 LTAP by 2018, two years earlier than anticipated⁶. Further revenue requirement increases between 2018 and 2020 will result in additional annual energy savings.
- While forgoing the CARC + 10% approach does result in reduced cumulated energy savings between 2012 and 2017⁷, adopting the BC Hydro's Proposed RIB Pricing Principle will slightly reduce revenue requirement increases between 2011 and 2017 as compared to CARC + 10%, all else being equal⁸. In light of the large general rate increases anticipated in future revenue requirements, adopting the path which reduces revenue requirement increases, in exchange for a slightly slower take-up of conservation savings, strikes a superior balance.

¹ Table B-2 Appendix B of Exh B-1

² Undertaking #7, Exh B-28 , 2008 RIB Application

³ BCUC 1.6.1, Exh B-2

⁴ BCUC 1.7.6, Exh B-2

⁵ BCUC 1.3.1, Exh B-2

⁶ BCUC 1.7.6 , Exh b-2.

⁷ BCOPA 1.2.1 Exh B-2

⁸ BCOAPO 1.3.1 Exh. B-2

- A number of information requests filed in this proceeding challenge BC Hydro's assumption with respect to the future value of its LRM⁹, suggesting that the modeling value used by BC Hydro is too low. The basis for setting future LRM value will depend on the future resources identified in future LTAPs and the result could be higher or lower than the value used by BC Hydro in its model supporting this Application. For example, Site C UCC costs developed for the 2008 LTAP ranged between \$50 and \$90/MWh¹⁰ which is considerably below the 2009 Clean Call average Plant Gate price of \$111/MWh¹¹.
- The anticipated filing of a residential TOU rate in late 2011 will provide an opportunity to review the significant residential rate issues¹². Now is not the time to accelerate the divergence between the tiers under RIB. Assuming that time-of-use rates will be at least a part of the picture once smart meters become operational, residential customers will be billed either on a TOU basis or on some hybrid TOU-RIB rate structure.

If RIB has any future beyond the installation of smart meters, the Commission will need to carefully design and calibrate the far more complex rate structure which this will entail, in order to optimize the balancing of rate design objectives and in order to ensure that the end result is not "unjust, unreasonable, unduly discriminatory or unduly preferential" within the meaning of section 59(1) of the Utilities Commission Act. Thus any decision made at this juncture regarding the calibration of RIB should be regarded as provisional, at the most.

Our clients say that BC Hydro's proposed approach strikes a fair balance between the competing factors which the Commission must weigh, and they submit that it should be approved.

All of which is respectfully submitted.

Yours truly,

BC PUBLIC INTEREST ADVOCACY CENTRE

Original in file signed by:

Jim Quail

cc: parties of record

⁹ BCUC 1.3, BCSEA 1.2.1, Exb B-2.

¹⁰ 2008 LTAP, Appendix F1, page 47.

¹¹ Exh B-1, page 2

¹² Exh B-1, page 10