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February 18, 2011

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British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
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Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

**Re: British Columbia Hydro and Power Authority ("BC Hydro")
Residential Inclining Block Rate Re-pricing Application**

Terasen Utilities Final Written Submissions

In accordance with the British Columbia Utilities Commission (the "Commission") Order No. G-204-10 establishing the Regulatory Timetable for the above noted application, attached please find the Terasen Utilities' (on behalf of Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc.), Final Written Submissions.

If you have any questions regarding this submission, please do not hesitate to contact Dave Perttula at (604) 592-7470.

Yours very truly,

on behalf of the TERASEN UTILITIES

Original signed:

Diane Roy

Attachment

cc (e-mail only): Registered Parties

BRITISH COLUMBIA UTILITIES COMMISSION

**IN THE MATTER OF the *Utilities Commission Act*,
R.S.B.C. 1996, Chapter 473 (the “*Act*”)**

and

**British Columbia Hydro and Power Authority
Residential Inclining Block Rate Re-pricing Application**

**SUBMISSIONS OF
TERASEN UTILITIES**

February 18, 2011

The Terasen Utilities Final Submissions

A. INTRODUCTION

1. On August 28, 2008, by Order No. G-124-08, the Commission approved BC Hydro's application to implement a residential inclining block (RIB) rate for its residential customers, with approval of pricing principles for BC Hydro's Fiscal 2009 and Fiscal 2010 periods.
2. Commission Order G-47-10 issued on March 15, 2010 granted approval for BC Hydro to apply its interim F2011 rate increase uniformly across the RIB rate's Basic Charge, the Step-1 rate, and Step-2 rate. The F2011 pricing principle applicable to the RIB rate was approved by Commission Order G-180-10 which approved the BC Hydro F2011 Revenue Requirements application and Negotiated Settlement Agreement.
3. On December 21, 2010, pursuant to sections 58 to 61 of the Utilities Commission Act, BC Hydro applied for approval of RIB rate pricing principles for Fiscal 2012 and onward, under which BC Hydro would increase the three components of the RIB rate (Step-1 energy rate, Step-2 energy rate and Basic Charge) by the amount of any approved general rate increase as was done in F2011.

B. TERASEN UTILITIES SUBMISSIONS

I. REVENUE REQUIREMENT INCREASES SHOULD BE APPLIED TO RIB RATE COMPONENTS

4. Terasen Utilities agree with BC Hydro that revenue requirement increases should be applied to each of the RIB rate's components such as Basic Charge, Step-1 Rate and the Step-2 rate. BC Hydro has employed a bill impact threshold for rate design purposes of the class average rate change (CARC) plus 10 per cent. A bill impact of CARC + 10 per cent on the single most adversely impacted customer is a limiting factor in its rate design models.
5. In this case, the advantage of the CARC+10 percent bill impact limit as a basis for the pricing principle is a relatively quick increase in the Step-2 energy rate to BC Hydro's Long Run Marginal Cost (LRMC) or Clean Power Call (CPC) rate grossed up for line losses with an effective phase in period of 3 years (by 2014). The disadvantage of using CARC+10 per cent is the consequential distribution of bill impacts. Larger consuming customers would have total annual bill increases greater than the applicable revenue requirement increase and smaller customers would have total bill increases less than the revenue requirement increase during the phase in of the Step-2 to match the LRMC.
6. In the alternative, the second option under review is the BC Hydro Proposed Pricing Principle that results in a phase-in of the Step-2 rate to the LRMC by 2018 with the bill impact spread out over seven years rather than three. The dominant driver behind this proposal is

the anticipated level of revenue requirement increases over the next few years. BC Hydro believes that it cannot justify a RIB rate pricing principle that would rapidly increase the Step-2 energy rate to a level of the current LRMC, which would cause incremental bill impacts for customers but not yield material incremental total conservation.

II. RATE INCREASES WILL BE MORE EASILY UNDERSTOOD BY END-USE CUSTOMERS UNDER THE PROPOSED RIB REPRICING APPROACH

7. In previous proceedings such as the 2007 BC Hydro Rate Design Application and the 2008 RIB Application the Terasen Utilities have supported the use of marginal cost pricing to convey appropriate price signals to customers about the impact of their energy use on system costs. The Terasen Utilities continue to support this principle.

8. Adoption of the proposed RIB Re-pricing approach would constitute a minor departure from the use of marginal cost pricing signals in that the Step-2 rate will not reach the LRMC for several years longer than it would take under an approach such as CARC +10%. However the Terasen Utilities believe this is warranted in the circumstances. The current Step-2 rate of 8.78 cents per kWh is 40% higher than the current Step-1 rate of 6.27 cents per kWh. Under the proposed approach the 40% price differential between Step-1 and Step-2 will remain the same as revenue requirement increases are applied from year to year but the absolute price differential in cents per kWh will increase. Therefore the price signal under the proposed approach will be getting stronger even if it takes longer for the Step-2 rate to reach the LRMC.

9. A benefit of the proposed RIB Re-pricing approach is that the impact of revenue requirement increases will be the same in percentage terms for all residential customers on the RIB rate and more easily understood. The overall revenue requirement increase will closely match a customer's individual bill increase. In view of the expected introduction in the next several years of different rate structures for residential customers, such as time-of-use rates; the Terasen Utilities believe the proposed RIB Re-pricing approach is appropriate for the intervening period.

III. TRACKING THE DIFFERENCE BETWEEN THE STEP-2 RATE LEVEL AND LRMC

10. BC Hydro does not plan to provide annual compliance filing as these are only considered necessary when rate increases are differentially applied to pricing elements of a rate structure. This type of filing demonstrates the correct application of the pricing principle to the subject rate structure and BC Hydro considers this process is unnecessary where the revenue requirement rate increases are applied equally to each element of the rate structure. Updated tariff sheets would continue to be filed.

11. However in order to gain a greater understanding of the progress of the Step-2 rate in relation to the LRMC, BC Hydro should file information on the difference between these two measures annually (Terasen Utilities IR 1.3.1) when the rate increases are applied through the Revenue Requirements Applications or through another report in years where a revenue

requirement application is not filed. This would track the progress of the Step-2 rate in relation to the LRMC as the LRMC of power will have the most likely increase in seven years time (or 2018) and likely will not be the 2009 Clean Power Call (CPC) rate level escalated at the inflation rates (grossed up by transmission costs) BC Hydro has applied.

C. CONCLUSION

12. The Terasen Utilities support BC Hydro's application that revenue requirement increases should be applied to RIB rate components. However as much information as possible should be communicated to customers about BC Hydro's planned bill impact so that customers may better prepare for the higher costs of electricity.

13. It also is important to track the progress of the Step-2 rate and the LRMC difference on an annual basis and this information should be provided to the Commission. This input is necessary to maintain progress to achieve the LRMC.

All of which is respectfully submitted.

On behalf of the TERASEN UTILITIES

Original signed:

Diane Roy

February 18, 2011