November 14, 2011

Ms. Alanna Gillis
Acting Commission Secretary
BC Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Ms. Gillis:

Re: FortisBC Inc. (FortisBC) Residential Inclining Block Rate (RIB) Application
Project No. 3698628

Please be advised that we make this submission on behalf of our clients, a group of community-based organizations registered to collectively speak for the interests of low and fixed income FortisBC residential ratepayers in this process.

In its October 2010 Decision for the FortisBC 2009 Rate Design and Cost of Service Analysis Application, the Commission directed the Utility to, "...develop a plan for introducing residential inclining block rates that also incorporate a lower Basic Charge in the immediate future..." (Reasons for Decision to Order G-156-10, page 57) and on March 31, 2011, the Utility filed as directed. Our clients came into this process with a sense of inevitability: at the Commission’s directive FortisBC was applying for a RIB rate after the BCUC had already examined and approved a RIB rate for BC Hydro. Given the circumstances, we made the understandable assumption early on that this rate design would closely mirror BC Hydro’s and that our involvement would simply be a matter of ensuring the specific components of the proposed rate were effective, fair and reasonable. However, once we had an opportunity to review the Application and the interrogatory responses it quickly became clear that the operational differences between FortisBC and BC Hydro as well as the way in which FortisBC had formulated their RIB’s objectives, principles and values left the value of the applied-for rate structure to FortisBC and its ratepayers questionable at best and completely absent at worst. BCOAPO thinks it prudent to note that the Commission Order to file a RIB was made without the benefit of the information that has come to light during this process that now, in our submission, clearly demonstrates the significant differences between the utilities’ circumstances negate the rational connection found to exist in the BC Hydro RIB process between the rate structure’s goals and its effects.

The Proposed RIB’s Structure and Pricing Principles
FortisBC’s preferred RIB structure, known in this process as Option 8, uses the current customer charge to calculate the rates for the proposed Block 1 and Block 2 rates with the threshold between the two Blocks lying at 1600 kWh per billing period. The rate structure is also designed so 95% of customers will see an annual bill increase as a result of the RIB of less than 10% (Exhibit B-1, page 17). This proposed rate structure is intended to be a mandatory one for all residential customers except those who are subject to the Utility’s voluntary Time of Use (TOU) rate.

The Application also includes a proposal regarding the Pricing Principles to be used in rate adjustments between 2012 and 2015 (FortisBC Final Submission, Page 9 and Exhibit B-13, BCOAPO IR 2.5 a)). These Pricing Principles include the ability to recover revenue requirement increases and in 2012, the interim rate increase required to cover the increased flow-through cost of power purchased from BC Hydro as approved in June 2011 (Exhibit B-11, page 6). Based on the proposed Pricing Principles, the customer charge will remain exempt from adjustments rooted in rate increases but is subject to any rebalancing adjustments. The price for Block 1 power will be adjusted by an amount equal to the general rate increase (including BC Hydro flow through costs) and any rebalancing adjustments and Block 2 will be adjusted by the amount necessary to recover the balance of the rate class’ general revenue requirements, including any rebalancing adjustments.

The Bonbright Framework

While this Application was the Utility’s response to a Commission Order, much of its rationale is rooted in Bonbright’s rate design objectives and in particular: customer bill impact, efficient price signals, and promotion of conservation (Exhibit B-13, BCOAPO IR 2.20 a)). The use of Bonbright as a framework against which all rate design activities and options can be compared is consistent with past Commission decisions, including the Reasons in BC Hydro’s RIB Application (Order G-124-08) where the Commission determined that, “Bonbright’s eight rate design criteria [are] appropriate and consistent with the statutory test of ‘fair, just and not unduly discriminatory’” In that Decision, the Commission went on to say that, “[t]he Commission Panel has now reconsidered the same criteria in the context of development of a conservation rate for residential customers, finds that they continue to form an appropriate foundation for more innovative rate designs as well, and accordingly accepts them” (page 51). More recently in the BC Hydro RIB Rate Re-Pricing Application, the BCUC stated that the Commission is guided by the eight “Bonbright Principles” (Page 5 of Appendix A to Order G-45-11), clear indication that Bonbright remains a relevant consideration in a rate design process.

Customer Bill Impact and Efficient Price Signals

BCOAPO notes that Customer Rate Impact (Bonbright Principle #6) and Efficiency-Inducing Price Signals (Bonbright Principle #3) were given “additional weight” in the Commission’s Decision in the recent BC Hydro RIB Rate Re-Pricing Decision (page 14-15 of Appendix A to Order G-45-11) and as such acknowledges that these two considerations properly form a primary part of the evaluation of FortisBC’s proposed RIB.

Promotion of Conservation

The inclusion of this Principle specifically as a RIB objective appears to be rooted in Policy Action #4 from the 2007 BC Energy Plan: “Explore with BC utilities new rates structures that encourage energy efficiency and conservation” (Exhibit B-1, page 8).
BCOAPO notes, however, that the Application states the RIB rate will allow customers to review “useful information about their electricity consumption to allow them to make informed choices” (Exhibit B-1, page 8). If this is the true purpose of the RIB rate, it is overly simplistic and inappropriate to characterize the RIB as “promoting conservation” and more accurate to say it “promotes mindful energy use” because informed choices do not necessarily lead to energy savings. For example, while a mother struggling to make ends meet on Income Assistance might want to conserve for environmental reasons as well as economic ones, she cannot safely defer feeding her children or heating her home to save energy. Mindful use is an inevitability for an environmentally-conscious or economically vulnerable ratepayer but conservation in practice may not be practicable.

In BCOAPO’s submission, it is inappropriate for ratepayers to be put in a position where they are subject to rate designs where the resulting energy decisions are made based on inaccurate information, for example where price signals are fixed to suggest the real cost of electricity is higher or lower than it truly is. For ratepayers to make informed choices, they must have accurate information, which in this forum means electricity pricing reflecting the true cost implications of consumption decisions, something notably absent from FortisBC’s RIB.

BCOAPO suggests that under this paradigm, the promotion of conservation through pricing is only appropriate where it encourages energy efficiency initiatives that cost less than new supply and if the pricing is sending signals that actually lead to cost-effective decisions. BCOAPO views the objective more appropriately characterized as “Promotion of Cost-Effective Conservation.” A change in focus with a greater emphasis on “cost-effectiveness” would align the objectives of FortisBC’s conservation rates with its DSM programs which are currently screened using the Total Resource Test (TRC) (Exhibit B-13, BCOAPO 2.15 d)). In its Additional Evidence filed August 24, 2011, the Utility effectively acknowledged this point:

Fundamentally, the move to marginal cost based pricing in undertaken to set prices that lead to the most efficient use of resources, or at the very least, to allow customers to determine how much it is worth, based on competing priorities, to consume more or less of a commodity, in this case– electricity.

In the short term, a customer can alter the way electricity is consumed, and in the longer term make decisions about possible capital expenditures such as energy efficient appliances or heating sources.

If one accepts the customers are responsive to price signals (as FortisBC does) then in order to promote efficiency in the producing and supplying of electricity, the prices facing the consumer should reflect (although not necessarily match) the marginal cost to the utility of producing more or less electricity (Exhibit B-11, page 15).

It is important to note that BCOAPO does not agree that all customers have the financial capacity to be responsive to price signals in order to promote efficiency in the manner suggested by the Utility in the preceding passage but most certainly do.

**Fair Apportionment of Costs Amongst Customers**

While the BCUC has in previous decisions placed more weight on Bonbright Principle 3 (Efficiency-Inducing Price Signals) than Principle 2 (Fair Apportionment of Costs Amongst Customers), that does not, in our respectful submission, indicate that the BCUC has ordered Principle 2 be abandoned.
Rate design is a utility and regulator’s main means of apportioning costs within a customer class and as such it plays a key role in addressing Bonbright’s Principle 2. Our clients see this as an important concept that should not be abandoned entirely but rather retained and given the appropriate priority in any rate design assessment process.

**FortisBC’s Screening Measures**

There were a number of options explored as a result of this process: some generated by FortisBC and some through the interrogatory responses. These options were the result of variations in the bill impact criteria, the Block 2 Threshold, and the fixed bimonthly Customer Charge. The Utility evaluated options using a number of considerations and calculations including the annual breakeven kWh, percentage of customers that benefit, maximum bill impact, percentage of customers with bill increases of less than 20%, the number of customers that see Block 2 at least once, percentage of load billed in Block 2, and the conservation impact (Exhibit B-1, page 20 and Table 7.1 and 7.2) When asked about the relationship between the objectives listed in Section 3.2 of the Application and the Screening Measures found in Table 7.1, the Utility noted that the first six measures relate to Customer Bill Impacts while the last focuses on Conservation (Exhibit B-5, BCUC IR 1.17.3).

Further inquiries regarding Efficiency-Inducing Price Signals yielded answers indicating that the actual evaluation in Table 7.2 looked at the differential between the two Block Rates (Exhibit B-5, BCUC IRs 1.17.2.3 and 1.17.3), a differential the Utility has indicated it believes is the price signal incenting customer efficiencies and is therefore an appropriate measure of the Bonbright Efficient Price Signals Principle (Exhibit B-5 BCUC IR 1.9.7 and Exhibit B-13 BCOAPO IR 2.20 a)).

In BCOAPO’s submission, there is a serious disconnect between the screening measures adopted by FortisBC in this rate design and the Bonbright Principles because FortisBC’s claim that the Block Rate differential is an appropriate measure of efficient prices is based on two erroneous premises.

The first way in which the Utility has gone astray is by determining that the Block 1/Block 2 price differential is the component that influences ratepayers’ consumption decisions (FortisBC Final Submissions, page 9, II 3-5). As FortisBC itself has acknowledged, it is the relationship between the current rate structure (AKA: a flat rate) and the RIB with a particular emphasis on its Block 2 rate and not the Block price differential that is used in the elasticity assumptions and the calculation of any conservation arising from the RIB (Exhibit B-13, BCOAPO IR 1.21 b)). While the differential and Block 2 rate are obviously linked, BCOAPO notes it is important to be clear and accurate which of these two parameters are truly driving ratepayer consumption behaviours when evaluating this Application.

The second fundamental way in which the Utility has erred in its screening measures is by deciding that an efficient price signal is that which encourages some portion of customers to reduce consumption (Exhibit B-6, BCOAPO IR 1.1 b)). This lead to FortisBC’s claim that the primary goal of the RIB is to promote conservation with no consideration as to how the resulting Block rates, and in particular Block 2 rates,
compare with the Utility’s avoided costs (Exhibit B-11, page 16, ll 1-3; Exhibit B-5, BCUC IRs 1.9.1 and 1.9.2; and Exhibit B-13 BCOAPO 2.20 a)).

In the BC Hydro RIB processes, the Commission’s approach has been to use the utility’s long run marginal cost (LRMC) as a ceiling for its Tier 2 rate (Page 108 of Reasons for Decision to Order G-124-08 and Page 14 of Appendix A to Order G-45-11). FortisBC has declined to follow this precedent and its Block 2 rate is not tethered to its LRMC in any way despite having acknowledged that the comparison between the two would be a good indicator of the degree to which a rate option satisfies Bonbright’s 3rd Principle (Exhibit B-13, BCOAPO IR 2.15 b)).

There is also a serious inconsistency between this Application’s approach and the Utility’s approach to DSM programs where the goal is to encourage cost-effective conservation relative to the avoided cost of supply (Exhibit B-13, BCOAPO IR 2.15 d)), linking conservation to the LRMC, a link noticeably absent from the Utility’s RIB Rate.

In many places in this process, FortisBC has claimed its Application mirrors BC Hydro’s. One such time is the Utility’s claim that its calculations of conservation impacts is the same as BC Hydro’s but the reality is that although the formula is the same, the results are materially different as between the two utilities. In BC Hydro’s case, an increase in its Tier 2 rate will still always result in any conservation impacts being considered cost-effective because absent a fundamental change in the rate parameters they will inevitably cost less than the LRMC. This is not the case for FortisBC’s preferred RIB option. In FortisBC’s case, Block 2 rate increases above its avoided cost of supply could be viewed as promoting additional load reductions that are not cost-effective, discouraging efficient uses of electricity and therefore rendering the RIB inconsistent with Bonbright’s Principle 3.

Use of FortisBC’s Marginal Costs as a Cap or Screening Measure

During this process, FortisBC has provided a number of values to calculate its long run marginal cost of power including BC Hydro’s Clean Power Call, the costs associated with the Utility’s specific resource options, generic BC options and anticipated wholesale market prices (Exhibit B-11, page 17). The Utility indicated in response to BCOAPO IR 1.12 c) that it would be using $125.80/kWh (in 2011 dollars) as a levelized cost for new resources.

The Utility has stated a number of times including in its Final Submissions that capping its Block 2 rate at its LRMC would result in a rapid convergence of the two Block rates with dwindling conservation impacts resulting. BCOAPO notes that the inherent flaw in FortisBC’s reasoning is that they have interpreted the purpose of this exercise as being the introduction of RIB rates and the reduction of electricity use. Instead, BCOAPO submits that RIB rates are not and should not be the overall objective, but rather a means to an end. The means is the rate structure and the end is to encourage efficient electricity use via rates that send the proper price signals to encourage customers to make the appropriate consumption decisions and this can only be achieved using a RIB rate structure when the LRMC is significantly higher than the existing rate.

However, FortisBC is a different utility than BC Hydro with significantly different circumstances, most notably the relationship between its rates and avoided costs.
FortisBC’s current residential energy rate is below its LRMC but forecasts show that rate will approximate the LRMC by 2015 (Exhibit B-13, BCOAPO IR 2.24 a)). As a result, the two utilities’ situations are not directly comparable and there really is no need for FortisBC to implement a RIB rate in order send the proper price signals to customers, they are coming soon whether the Utility has a RIB or not.

Customer Charge

The Application proposes freezing FortisBC’s current customer charge at $28.93 (subject to rebalancing adjustments), presumably in response to the Commission’s direction in G-156-10 that the Company develop a plan for a RIB that incorporates a lower Basic Charge. While some of the options considered by the Utility had lower Basic Charges than that applied for, the Utility took the position that this fixed cost should not be reduced in absolute terms, instead being reduced over time in proportion to the Block 1 and Block 2 costs on ratepayer bills.

BCOAPO notes that the Utility’s most recent Cost of Service (COSA) based on their 2009 Revenue Requirements indicated that the true cost of service per account was $57.48 per billing period, almost twice the current Basic Charge so there is no reason in BCOAPO’s submission to reduce the Basic Charge in any future rate designs.

We acknowledge that given the BCUC view that the Bonbright Principle 3 trumps Principle 2, it would not be appropriate to increase the Basic Charge at the expense of energy charges and given our greater understanding of how FortisBC’s energy costs will track with their LRMC in the near future, there seems little need to reduce the Basic Charge as well to make room to increase energy rates to satisfy Bonbright’s Principle 3.

As a result, BCOAPO does not see any reason to change the Utility’s Basic Customer Charge should the Commission approve the FortisBC RIB.

Conclusion

The Utility’s decision to pursue a RIB rate is based on a Commission directive rooted at least in part on BC Hydro’s adoption of a similar rate structure. However, the evidence in this proceeding clearly demonstrates that FortisBC’s circumstances are significantly different than BC Hydro’s in that FortisBC’s energy rates are not significantly below the LRMC and will closely track with it in the near future, something that was not at all evident at the time the directive to file a RIB rate application was made.

BCOAPO sees no value in a rate design for a rate design’s sake and submits that the objective is not and should not be simply to reduce use for its own sake, but to do so when and if it makes sense. To introduce a RIB rate where both Blocks will vary from the LRMC more than the current flat rate within the short term is counterproductive because it does not promote the efficient use of electricity while causing material customer impacts.

It may be a difficult pill for parties to swallow, particularly after a long and involved process, to find that the correct action is no action at all, but that is, in BCOAPO’s submission, the case here.
All of which is respectfully submitted.

Sincerely,

BC PUBLIC INTEREST ADVOCACY CENTRE
Original on file signed by

Leigha Worth
Acting Executive Director
Barrister & Solicitor