Dear Madam:

Re: FortisBC Inc. (FBC)
Residential Inclining Block Rate Application (RIB)
BCUC Project No.3698628
BCUC Order G-68-11

The matter before us essentially flows from the promotion of Conservation with the assurance that the impact to customers is reasonable. Reality demonstrates competing objectives which were not enumerated in Order G-156-10. Our observations and comments concerning the RIB rate follow:

1. **Price Elasticity and Control Group**

The price elasticity of residential electricity demand has been studied for decades with values ranging from -0.20 to -1.4 in literature survey. The conclusion are: that elasticities depends on conditions; that there are seasonal variation in elasticity (Archibald, Finifter and Moody, 1982, p. 177); and that households without electric heat or air conditioning had low elasticities (Reiss and White, 2005, p. 868). In addition, price-responsiveness seems to rise with income.

Strata Corporation KAS2464 supports a requirement that FortisBC use a control group to evaluate the impact of the proposed RIB rate and disagrees with FortisBC response that it is premature. Throughout the RIB application FortisBC
did not demonstrate it understood the demands of its own customers. In addition, FortisBC should be directed to include the affects of Heating Degree Days (HDD) and Cooling Degree Days (CDD) on elasticity as a study by Munley, Taylor and Formby (1990) shows price, HDD and CDD to be the principal explanatory variables in consumption.

2. Inclusions and Exclusions

The promotion of conservation for electrical consumption appears selective, exclusive and competing with other Provincial initiatives. The exclusions list include ‘indirect’ customers of FortisBC, should there be sub-metering of apartments and condominiums (Discovery Research, Survey results page 10) where 65% of apartments and condominium residents have hot water included in their fees and 13% have heat included, i.e. residents of bulk-metered apartments and condominiums with possibly a hundred or more units and share the total building utility cost, the price of consuming additional kWh’s is essentially zero and the customer charge is also negligible.

Residential consumption accounts for about 33% of electrical consumption, while commercial and institutional electric tariffs have 4 classifications with declining rates in one classification.

The Clean Energy Vehicle Program starting Dec 1, 2011 provides rebates of $2500 to $5000 on Battery Electric Vehicles and Plug-in Hybrids. Questions about road maintenance and HST (now included in the price of gasoline) and reducing air pollution muddy the conservation goal of reducing consumption.

While these examples appear to be outside the FortisBC RIB proposal they do play an important part in a level the playing field for conservation. A control group study may well support other classifications within the residential tariff that identify conditions that support exclusions and exemptions of various types.
3. Conclusion

If the British Columbia Utilities Commission continues to believe that conservation can be efficiently promoted via a residential inclining block rate, the FortisBC proposal with its various shortcomings is the preferred option. However, Strata KAS2464 believes the RIB rate proposal mutes market forces and will result in only marginal conservation benefits and cause financial pain in some instances. Exclusions and exemptions will eventually make the RIB proposal unmanageable. FortisBC electric customers will adapt by converting to other energy options that may reduces FortisBC ability to be profitable and harms the environment. Lastly the RIB proposal blunts the imagination and innovation of the future, thorium reactors and other energy efficiencies may solve our electrical requirements. Overall the negative possibilities outweigh the positive benefits.

References