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British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC, V6Z 2N3
Attn: Erica Hamilton, Secretary
By Web Posting

Dear Madam:

Re: British Columbia Utilities Commission Residential Inclining Block Rate Report to the Government of British Columbia;
BC Sustainable Energy Association and Sierra Club BC Comments

I represent the B.C. Sustainable Energy Association (BCSEA) and Sierra Club B.C. (SCBC). BCSEA-SCBC are stakeholders¹ in this proceeding established by the Commission's August 17, 2015 letter, Log No. 50648, [Exhibit A-1]. These are BCSEA-SCBC's comments in response to the Commission's request for comments by October 16, 2015 on the following three topics:

- i. The utility methodology submissions;
- ii. Any other relevant issues with the rates that have not previously been adequately addressed but should be reported on in the utility reports to the Commission and the Commission's report to government; and
- iii. Comments on the Commission's proposed process and suggested timing.

BCSEA-SCBC's comments here are limited to methodology and procedure. The comments do not address the substance of the issues regarding the RIB rates and DSM programs.

In addition to the detailed comments provided below, BCSEA-SCBC would emphasize that the Minister's question 5 provides an important opportunity for the Commission to report on the options for additional DSM programs for residential and residential low income electricity customers.

I. Comments on the utility methodology submissions

The "utility methodology submissions" are submissions by BC Hydro located in sections 5.5 and 5.6 of BC Hydro's 2015 Rate Design Application (RDA),² and submissions by FortisBC Inc. (FBC) dated September 30, 2015.³ These utility submissions address topic (i) set out by the Commission in Exhibit A-1 as follows:

¹ BCSEA-SCBC were interveners in the BC Hydro 2013 Residential Inclining Block Rate Re-Pricing Proceeding, and in the FortisBC Inc. 2011 Residential Inclining Block Rate Proceeding.

² Exhibit A2-1 in the BCUC RIB Report proceeding.

³ http://www.bcuc.com/Documents/Arguments/2015/DOC_44718_09-30-2015_FBC-Submission.pdf

- i. A detailed outline of the methodology(ies) for the report the utilities will submit to the Commission on the five questions posed by Minister Bennett including:
- a. How they intend to define “low-income” customers;
 - b. How they intend to define “factors” that lead to high energy use;
 - c. For each of the five questions, the general approach they intend to take to answer the question;
 - d. Any other relevant method they will use to gather information or answer the questions posed within the Minister’s letter of July 6, 2015.

a. Definition of “low income” customers

Both BC Hydro and FBC propose using the LICO definition of low income for the analysis. BCSEA-SCBC support that approach. The Residential End Use Study (REUS) data uses the LICO definition. Any other definition of “low income” would require new data gathering, which would not be feasible within the available timeframe.

b. Definition of “factors” that lead to high energy use

BC Hydro⁴ and FBC⁵ propose using “electricity consumption by heating fuel,” and “electricity consumption by housing type.” BC Hydro considered and rejected using ‘electricity consumption by number of occupants’ because that measure correlates with floor space. FBC says that being without access to natural gas cannot logically be examined as a factor leading to high energy use by customers without access to natural gas.

BCSEA-SCBC have the following comments.

- The question uses the term “high energy use.” For clarity, the Commission should confirm that this is understood to mean electricity use.⁶
- BCSEA-SCBC concur that electricity consumption by heating fuel, and by housing type, is data that exists from the REUS studies, and therefore these two factors are the practical ones to use.

c. Approach to the Minister’s five questions

Minister RIB Report Letter Question 1

The Minister’s first question is: “Do the residential inclining block rates cause cross-subsidy between customers with and without access to natural gas?”

BC Hydro⁷ and FBC⁸ each say they will address this question using cost of service information.

⁴ Exhibit A2-1, p.5-69.

⁵ FBC September 30, 2015, pp.2-3.

⁶ BC Hydro says “BC Hydro defines the phrase “high energy use” as including both energy consumption and peak demand.” [p.5-69] In the context, however, it is understood that BC Hydro is referring here to electrical energy.

⁷ Exhibit A2-1, p.5-70, lines 6-8.

⁸ FBC September 30, 2015, p.3.

FBC says “Cross-subsidy exists between consumers of a single output when different categories of consumers are treated in “economically unjustified” ways.” FBC says, “The issue of the impact of the RCR on those customers without access to natural gas was fully explored and documented in Section 2.4 of the RCR Information Report filed by FBC on November 28, 2014.”

BC Hydro says “Responding to this question requires a practical definition of ‘access to natural gas’.” BC Hydro proposes “adopting a community approach to define access to natural gas.” BC Hydro would use a FortisBC Energy Inc. list of communities with natural gas service to create a list of communities in BC Hydro’s service territory without natural gas.⁹

BCSEA-SCBC comments:

- BCSEA-SCBC support the use of a cost of service approach to the analysis of whether the RIB rate creates a cross-subsidy between residential customers with and without access to natural gas.
- BCSEA-SCBC are not aware of an alternative to a cost of service approach for the analysis of whether there is a cross-subsidy between customers within the same rate class. However, if an alternative is presented, BCSEA-SCBC would be open to considering its merits for use in the RIB report.
- BCSEA-SCBC concur with BC Hydro: a definition of “without access to natural gas” (and “with access to natural gas”) is crucial for the analysis.
- BCSEA-SCBC do not disagree with BC Hydro’s proposed use of a “community” definition of access to natural gas.
- It is noted, however, that the community approach yields a relatively small number of electricity customers being in the category of “without access to natural gas.” BC Hydro lists as examples customers in Clearwater, Golden, Invermere, Port Hardy and Valemount.
- BCSEA-SCBC simply note that using the community definition means that the putative cross-subsidization is between (a) all of the residential electricity customers in the communities without natural gas, including customers who have electric heat and those who use other heating fuels, and (b) residential electricity customers in all other areas of the utility’s service territory, including those who use electric heat, those who use natural gas for heating, and those who use other heating fuels. This is very different than an analysis in which “without access to natural gas” is defined as not having natural gas heating (space or water) in the premises for whatever reason.¹⁰ In the latter case, the cross-subsidization analysis is between (a) residential electricity customers who don’t use natural gas heating (for whatever reason), and (b) residential electricity customers who do use natural gas

⁹ Presumably, BC Hydro will also use a list of communities supplied with natural gas by the PNG utilities.

¹⁰ Theoretically, there could be various intermediate definitions of ‘with and without access to natural gas’ in which ‘access to natural gas’ includes either actual service or some defined maximum cost of connection to natural gas service. However, these definitions would likely be too complicated to be practical for the RIB report.

heating. Unfortunately, it is not entirely clear which definition of “without access to natural gas” the Minister had in mind.

- Regardless of the definition of “without access to natural gas,” BCSEA-SCBC submit that the Commission should define ‘cross-subsidy on a cost of service basis’ for the purpose of the analysis and report. It is not obvious what “cross-subsidy on a cost of service basis” necessarily means in the context of customers within the same electricity rate class of each of the two public utilities. Factors that might or might not be included within ‘cross-subsidy on a cost of service basis’ include the Heritage Assets concept¹¹ and the postage stamp rate concept.¹² In addition, it is important to define whether “cross-subsidy” means rates that are not “fair, reasonable and not unduly discriminatory rates.”¹³
- FBC does not provide examples of communities within its service territory that are without access to natural gas. However, presumably this information could be obtained from FEI’s list of communities with access to natural gas.
- BCSEA-SCBC recommend that the Commission elaborate the definition of ‘with and without access to natural gas’ to deal with customers in communities such Revelstoke (which has access to piped propane), and customers who are outside of both the communities listed by FEI as having natural gas service and the communities listed by BC Hydro (and FBC in due course) as not having natural gas service.
- Also, BCSEA-SCBC recommend that the Commission make it clear that the analysis and report on the RIB rates applies only to residential electricity customers who are subject to an inclining block rate, i.e., it does not include customers in non-integrated areas or certain farm customers. This may be obvious to those familiar with electricity rates in B.C., but the audience for the report may be broader than that.

Minister RIB Report Letter Question 2

The Minister’s second question is “What evidence is available about high bill impacts [greater than 10 percent as a result of the adoption of the residential inclining block rates] on low income customers?”

¹¹ Is the intention to include an analysis of the extent to which each of the two categories of residential customer benefits from the Heritage Assets? If so, how does this apply to FBC? Does this require consideration of the Power Purchase Agreement?

¹² For each of the two utilities, within the residential rate class, rates are the same for all customers regardless of geographically related differences in the utility’s cost of providing service. Are such differences in the cost of electricity service to be included, or excluded, from the analysis of “cross-subsidization”?

¹³ The Commission has already determined that the BC Hydro and FBC RIB rates are fair, reasonable and not unduly discriminatory under the *Act*, bearing in mind the varying access to heating fuels among residential customers. Is the question of whether there is a cross-subsidy the same as the question of whether the Commission erred in approving the two RIB rates, or whether circumstances have changed such that the RIB rates are no longer fair, reasonable and not unduly discriminatory? Alternatively, if “cross-subsidy” means something else, then (a) what does it mean, and (b) what are the consequences if a cross-subsidy is found to exist?

BC Hydro makes three points in terms of its approach to this question: when the RIB rate was initially approved, seven years ago, some 80% of low income customers were better off as a result; under BC Hydro's proposed pricing principle for the RIB rate in F2017-F2019 no low income customer will have a bill impact of greater than 10%; and reverting from the existing RIB rate to a flat rate would cause 80% of low income customers to experience a bill impact greater than 10%.

FBC says that its REUS data has a small number of respondents compared to BC Hydro's REUS data. FBC says it will have a research company analyze its REUS data to determine the differences in factors such as size of premises, number of occupants, location, space heating fuel, domestic water heating fuel between low income and not low income customers. FBC says that at additional cost the research company and FBC personnel can analyze the impact of the RCR on low income customers.

BCSEA-SCBC have the following comments:

- BCSEA-SCBC recommend that the Commission define "bill impact" for the analysis and report. The usual definition of bill impact in regulatory proceedings (a static comparison of customer bill in one rate design to another rate design, assuming customer class revenue neutrality and no change in consumption) is not necessarily the same as the popular understanding of the phrase (which may be closer to 'financial hardship,' and also tends to ignore favourable bill impacts).
- Also, BCSEA-SCBC recommend that the Commission confirm that the bill impact on low income customers that will be addressed in response to questions 2 and 3 includes (a) both higher and lower bills experienced by different low income customers (not merely higher bills experienced by some low income customers), and (b) the bill impact (higher and lower) on low income customers of reverting to a flat rate from the existing inclining block (not merely the original bill impact of the change from a flat rate to an inclining block rate).
- In addition, BCSEA-SCBC recommend that the Commission clarify or confirm that "low income customers" in the second question means low income customers independent of whether they are with, or without, access to natural gas.

Minister RIB Report Letter Question 3

The Minister's third question is "What evidence is available about factors that lead to high energy use and, therefore, bill impacts for customers without access to natural gas, including low income customers?"

BC Hydro says it has "modelled the bill impacts of moving from the RIB rate to a flat rate by dwelling type (apartments) and for customers using electric space heating." It says "BC Hydro also proposes to model the bill impacts of moving from the RIB rate to a flat rate for customers in communities that do not have access to natural gas."¹⁴

FBC's discussion of its approach to question 3 is included in its discussion of question 2.

BCSEA-SCBC comments:

¹⁴ Exhibit A2-1, page 5-71.

- It is important to clarify or confirm that “high energy use” in question 3 means high electricity use, as mentioned above.
- BCSEA-SCBC recommend that the Commission clarify or confirm that there are two subject groups in question 3: (a) customers, regardless of income, without access to natural gas, and (b) low income customers without access to natural gas. If confirmed, note that this is different than in question 2, where the subject group is low income customers with and without access to natural gas (i.e. low income customers in all areas of the utility’s service territory). Neither BC Hydro nor FBC appear to acknowledge this difference between question 2 and question 3.

Minister RIB Report Letter Question 4

The Minister’s fourth question is “What is the potential for existing Demand Side Management programs to mitigate these impacts?”

BC Hydro says “The Minister RIB Report Letter question 4 asks what the potential is for existing DSM programs to mitigate any RIB rate-related high bill impacts on low income customers, if there are such impacts;...”¹⁵

FBC “proposes to provide a list and brief description of existing [DSM] programs that customers can participate in that can impact the factors identified in response to question 3 above that lead to high energy use.”¹⁶

BCSEA-SCBC comments:

- In BCSEA-SCBC’s view, question 4 is not adequately answered by merely describing existing DSM programs (which is what might be inferred from the utilities’ responses). BCSEA-SCBC recommend that the Commission clarify that the core of question 4 is what is the potential for existing DSM programs to reduce electricity usage and hence customer bills. For example, what is the potential for an existing DSM program to be ramped up, say with higher incentives, in order to achieve increased energy savings?
- BCSEA-SCBC recommend that the Commission clarify that the response to question 4 will describe the potential for DSM programs to reduce electricity usage by customers in the communities without natural gas service, including low income customers in those communities. The intention of the clarification is to avoid getting sidetracked into the semantics of “bill impacts.”

Minister RIB Report Letter Question 5

The Minister’s fifth question is “Within the current regulatory environment, what options are there for additional Demand Side Management programs, including low income programs?”

BC Hydro addresses the methodology for question 5 in section 5.6 of Exhibit A2-1. BC Hydro has two points pertinent to “Within the current regulatory environment”: its position that the Commission cannot accept or reject DSM expenditures within its 2015 RDA proceeding because the proper venue is a DSM expenditure schedule filing under s.44.2 of the *Act*; and its position

¹⁵ Exhibit A2-1, p.5-72.

¹⁶ FBC September 30, 2015, p.5.

that the Commission's response to the Minister's question 4 and 5 must be informed by the F2017-F2019 rate caps set out in section 9 of Direction 7.

Further, BC Hydro outlines its existing DSM program for residential customers and for low income residential customers.¹⁷

Regarding question 5, FBC says "The Company will provide a discussion of any potential additional DSM programs, or potential modifications to existing programs, that could be undertaken within the existing regulatory environment."¹⁸

BCSEA-SCBC comments:

- BCSEA-SCBC recommend that the Commission confirm that an important point about question 5 is that it is not limited to customers without access to natural gas. Question 5 asks for the Commission to report on options on additional DSM programs for residential customers generally and for low income residential customers, both within the context of the "current regulatory environment."
- BCSEA-SCBC do not disagree with BC Hydro's point that the RDA proceeding is not a venue for review of a DSM expenditure schedule. Similarly, BCSEA-SCBC acknowledge that the BCUC RIB Report proceeding is not a venue for review of a DSM expenditure schedule.
- In terms of "the current regulatory environment," the DSM Regulation and sections 44.1 and 44.2 of the *Act* would be the main factors.
- BCSEA-SCBC would emphasize that question 5 provides an important opportunity for the Commission to report on the options for additional DSM programs for residential and residential low income customers.

d. Other methods of gathering information or answering the Minister's questions

BC Hydro states that "BC Hydro's assessment is that in comparison to the RIB rate, a move to a flat rate will result in high bill impacts to the majority of BC Hydro's low income customers." And that: "In addition, no low income customer will have a bill impact greater than 10 per cent under RIB rate pricing principle Option 1."¹⁹

FBC "has not identified other methods that may be used to gather information."²⁰

BCSEA-SCBC support an approach to the Commission's response to the Minister's questions in which consideration is given to the bill impacts of reverting to a flat rate, particularly on low income customers, in addition to the bill impacts of the original change from a flat rate to an inclining block rate.

¹⁷ As required by the DSM Regulation, BC Reg. 326/2008, BC Hydro's low income DSM programs apply a definition of "low-income household" that is broader than the LICO definition of low income.

¹⁸ FBC September 20, 2015, p.5.

¹⁹ Exhibit A2-1, p.5-72.

²⁰ FBC September 20, 2015, p.5.

II. Comments on other relevant issues

The Commission asks for submissions on “Any other relevant issues with the rates that have not previously been adequately addressed but should be reported on in the utility reports to the Commission and the Commission’s report to government.”²¹

In response, BCSEA-SCBC submit that BC Hydro and FBC should report to the Commission and the Commission should report to government on the prognosis for residential electricity rates over the next ten to fifteen years. In the case of BC Hydro, this would include consideration of the eventual incorporation into rates of Site C and other capital spending and amortization of BC Hydro’s regulatory accounts.

III. Comments on the Commission’s proposed process and suggested timing

The Commission’s clarified proposed process and suggested timing for its report to the government is set out in Exhibit A-3.

BCSEA-SCBC have the following comments on the Commission’s proposed process:

- The Commission should identify the statutory authority (i.e., the section of the *Utilities Commission Act*) under which it is preparing the report to the Government.
- BCSEA-SCBC support the proposal that the Commission would “make[] its determination on the report methodology(ies), any other relevant issues to be included in the reports.” The BC Hydro and FBC information filed to date does not constitute a full description of the methodologies by which they will provide information for the Commission’s report.
- In BCSEA-SCBC’s view, it is important that the Commission articulate its understanding of various aspects of the terms of reference of the report (as stated above), such as: the meaning of “cross-subsidization,” the definition of ‘customers without access to natural gas,’ the scope of “low income customers” in questions 2 and 5 compared to questions 3 and 4, and how the term “bill impact” will be used in the report.
- In addition to the five questions by the Minister highlighted by the Commission in Exhibit A-1, it is noted that the Minister’s letter recommends that “the BCUC gather information from ratepayers in regions not served by natural gas regarding the impacts of conservation rates and awareness of ratepayer mitigation options.”²²

²¹ Exhibit A-1, p.3.

²² Page 2. Presumably the phrase “ratepayer mitigation options” refers to options by which electricity customers (in regions not served by natural gas) can reduce their Tier 2 electricity consumption, and thereby reduce their electricity bill.

All the above is respectfully submitted.

Yours truly,

William J. Andrews



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