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January 15, 2016

Ms. Erica Hamilton  
Commission Secretary  
British Columbia Utilities Commission  
Sixth Floor – 900 Howe Street  
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

**RE: British Columbia Utilities Commission (BCUC or Commission)  
British Columbia Hydro and Power Authority (BC Hydro)  
2015 Rate Design Application (2015 RDA)**

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BC Hydro writes to submit its Reply Submission in accordance with the regulatory timetable established by Commission Order No. G-175-15.

Yours sincerely,



Tom Loski  
Chief Regulatory Officer

ac/rh

Enclosure

Copy to: BCUC (BC Hydro 2015 Rate Design Application) Registered Intervener  
Distribution List.

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**2015 Rate Design Application**  
**Medium General Service and Large General Service**  
**New Account 85/15 Pricing Amendments**

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**Counsel's Written Reply Submission**  
**on behalf of**  
**British Columbia Hydro and Power Authority**

**15 January 2016**

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## Table of Contents

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1	Introduction .....	1
2	Reply Submission to BCOAPO .....	2
2.1	BC Hydro's Response to BCOAPO Item (i) .....	3
2.2	BC Hydro's Response to BCOAPO Item (ii).....	5
3	Conclusion .....	7

## List of Attachments

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Attachment 1 Revised Draft Order

## 1 Introduction

The following interveners submitted final argument with the British Columbia Utilities Commission (**Commission**) in accordance with the regulatory timetable established by Commission Order No. G-175-15 (**Exhibit A-4**):

- Association of Major Power Customers of B.C. (**AMPC**);
- British Columbia Old Age Pensioners' Organization *et al* (**BCOAPO**);
- B.C. Sustainable Energy Association and the Sierra Club of B.C. (**BCSEA**);
- Commercial Energy Consumers Association of British Columbia (**CEC**);
- FortisBC Energy Inc. and FortisBC Inc.; and
- Non-Integrated Areas Ratepayers Group.

BC Hydro submits its Reply Argument pursuant to Exhibit A-4. BC Hydro's Medium General Service (**MGS**) and Large General Service (**LGS**) new account pricing proposal is outlined in section 6.6 of the 2015 Rate Design Application (**Exhibit B-1**).

All of the interveners that filed final argument, with the sole exception of BCOAPO, provide unconditional support for the approval of BC Hydro's proposed pricing for new accounts in accordance with the form of Order provided as Appendix A-1A to Exhibit B-1. BC Hydro notes that both AMPC and CEC, which represent customers served under MGS and LGS rates, provide unconditional support for BC Hydro's new account pricing proposal. BC Hydro is in agreement with that part of CEC's final argument summarizing the effects of the pricing change (refer to paragraphs 8, 9 and 10 of CEC's Final Submission Regarding Large General Service and Medium General Service 100 Per Cent Part 1 Pricing, 8 January 2016).

BCOAPO provides conditional support for the proposal. BC Hydro responds to BCOAPO's final argument below in Part 2 of this Reply Argument.

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## 2 Reply Submission to BCOAPO

BCOAPO submits the following in its final argument:

“14. If the BC Hydro’s MGS and LGS rate proposals are accepted by the BCUC then the revised new account pricing rule for these rate classes will only be in effect for 15 months and the proposed approach is reasonable based on the information available and subject to the comments in the following section.

15. However, if BC Hydro’s proposals are not adopted then a longer term solution is required and an approach such as is used for RS 1823 customers would be more appropriate. Under such an approach, the energy rate for new accounts would be set equivalent to what the flat energy rate that would be required to recover the same energy-related revenues for the MGS and LGS classes respectively as the approved default energy rates.

### Impact on Other Customer Classes

16. In its Application BC Hydro claims that the proposed new account pricing “recovers BC Hydro’s embedded costs and therefore does not harm other rate payers” [Footnote 13 Exhibit B-1, page 6-71]. However, the response to BCUC 1.84.1 indicates that there are a material number of new accounts in F2016 that will be impacted if the change is not implemented on January 1, 2016 and even more if the change is not made for F2017.

17. To the extent the MGS and LGS revenues from new accounts for F2016 are lower due to the change being made effective January 1, 2016 the difference will be deferred to the Non-Heritage Deferral Account, which is recovered through the DARR [Footnote 14 Exhibit B-5, BCOAPO 1.156.1]. As a result, contrary to BC Hydro’s claims, there is a potential harm to other rate payers in the form of higher future rates.

18. Similarly, if the new pricing rule is in place for F2017 and leads to lower revenues at current rates than under the existing 85/15 pricing this will lead to an increase in the difference between the revenues generated by the rate increases prescribed under the Government’s BC Hydro Energy Plan and the revenue requirement eventually approved by the BCUC and

therefore a larger amount for recovery from/a smaller amount refund to customers being placed into the Rate Smoothing Regulatory Account that the BCUC is required to establish under Direction No. 7.[Footnote 15 BC Hydro's F15-F16 RRA, page 4] Again, assuming that any balances in the Rate Smoothing Regulatory Account are eventually recovered from/refunded to customers there is potential harm to other ratepayers from the change in the pricing rule for new MGS and LGS accounts.

19. Given this potential harm to other rate payers, BCOAPO submits that the impact of the change in pricing rules for new accounts (particularly for the period up to March 31, 2016) should be tracked separately within the relevant regulatory accounts and, if or when appropriate, future consideration possibly be given to a different approach for refund/recovery.”

The following provides BC Hydro's responses to BCOAPO's two conditional proposals:

- (i) The potential harm to other ratepayers and the tracking of the impact of the change in new account pricing separately in the relevant regulatory accounts, as outlined in paragraph 19; and
- (ii) If BC Hydro's proposals are not adopted, the energy rates for new accounts would be set equivalent to the flat energy rates that would be required to recover the same energy-related revenues for the MGS and LGS classes respectively as the approved default energy rates, as outlined in paragraph 15.

## **2.1 BC Hydro's Response to BCOAPO Item (i)**

Regarding the potential harm to other ratepayers, BC Hydro's response to BCSEA Information Request (IR) 1.19.1<sup>1</sup> states that 100 per cent Part 1 Pricing for new accounts would not cause a cross-subsidy between the LGS and MGS classes with other rate classes since “Part 1 Pricing is largely based on BC Hydro's embedded costs for the MGS and LGS rate classes with minor adjustments for forecasted

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<sup>1</sup> Exhibit B-5.

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Part 2 charges and credits". Therefore, BC Hydro continues to maintain its view that other ratepayers are not harmed by the 100 per cent Part 1 pricing of new accounts. This is discussed further in BC Hydro's response to Item (ii) in section 2.2 below.

BC Hydro is also of the opinion that it is neither practical nor worthwhile to adopt BCOAPO's proposal to track the impact of the change in pricing rules for new accounts separately within the relevant regulatory accounts:

- BC Hydro does not currently forecast target revenue from MGS and LGS new accounts separately and assumes that all accounts in each rate class, including new accounts, pay the applicable two part rate. The difference between the revenue from the new account under the existing 85/15 pricing and the applicable two part rate is captured in the Non-Heritage Deferral Account. BC Hydro uses this method for simplicity and because the revenue from new accounts is not significant in relation to total class revenue. BCOAPO's proposal would require BC Hydro to separately forecast revenue for new accounts and to track it separately in the relevant regulatory accounts. BC Hydro does not consider this to be worthwhile given the amount of revenue in question e.g., the revenue from all LGS accounts on 85/15 pricing in F2015 comprised only 4.4 per cent of the total class energy revenue;<sup>2</sup>
- In addition, BC Hydro notes that the difference in revenue between the existing 85/15 pricing and 100 per cent Part 1 pricing for all LGS accounts on 85/15 pricing is only \$2.2 million or 0.38 per cent of total LGS rate class energy revenue in F2015.<sup>3</sup>

Regarding BCOAPO's comment that the tracking should take place particularly for the period up to 31 March 2016, BC Hydro notes it is amending the effective date for the proposed new account pricing from 1 January 2016 to 1 April 2016 given the

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<sup>2</sup> This is based on F2015 LGS billing data which was used as input in the derivation of LGS rates in Exhibit B-1 (please refer to Appendix H-1A, Table H-1A-19).

<sup>3</sup> This is based on F2015 billing data referenced in footnote 2 and F2015 LGS (RS 16xx) energy rates.

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current regulatory schedule. Refer to the revised requested Order found at Attachment 1 to this reply argument.

## **2.2 BC Hydro's Response to BCOAPO Item (ii)**

In its response to BCSEA IR 1.19.4,<sup>4</sup> BC Hydro reiterates its proposal that the 100 per cent Part 1 pricing remain in place if the Commission does not approve BC Hydro's proposal to flatten the LGS and MGS rates. BCOAPO indicates in paragraph 13 of its final argument that “[u]nfortunately there is not information available on the record as to the revenue impact of BC Hydro's proposal versus an equivalent flat energy rate approach and, therefore, whether or not, it would more than offset the increased costs”.

[Table 1](#)<sup>5</sup> below compares the F2017 MGS and LGS Part 1 rates with the Rate Schedule (**RS**) 12xx energy rates. RS 12xx is the current exempt rate which is the same as the default rate that was applicable to customers in the then large (>35 kilowatt) general service class before the MGS and LGS two part rates were introduced in 2010. RS 12xx can be viewed as being comparable to the flat energy rate RS 1823 Energy Charge A applicable to new RS 1823 accounts, since RS 12xx was the default rate in effect prior to the introduction of the LGS and MGS two part rates.

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<sup>4</sup> Exhibit B-5.

<sup>5</sup> Sources: RS 12xx rate from Appendix G-1A, Attachment 2 of Exhibit B-1-1; MGS rate from Table 6-12, and LGS rate from Table 6-18, of Exhibit B-1.



**Table 1 Comparison of F2017 MGS and LGS Rates with Exempt Rate**

Energy Rate	F2017 Rate (cents/kilowatt-hour)
RS 12xx (Exempt Rate)	
Tier 1	11.16
Tier 2	5.36
RS 15xx (MGS Rate)	
Tier 1	10.33
Tier 2	7.21
RS 16xx (LGS Rate)	
Tier 1	11.17
Tier 2	5.37

The F2017 LGS Part 1 rate is almost identical to the F2017 RS 12xx energy rate. The F2017 MGS Part 1 rate differs from the F2017 RS 12xx energy rate because of the rate shaping that occurred under the provisions of the LGS Application Negotiated Settlement Agreement. However, [Table 2](#)<sup>6</sup> compares the MGS revenue in F2017 and shows that the variance in revenue using the two sets of rates is less than 0.2 per cent:

**Table 2 Comparison of F2017 MGS Revenue**

Part 1 Rate	F2017 Rate	Forecast F2017 Load (kWh)	Revenue (\$)
15xx Tier 1	10.33	2,449,649,233	253,048,766
15xx Tier 2	7.21	1,067,654,496	76,977,889
		<b>3,517,303,729</b>	<b>330,026,655</b>
12xx Tier 1	11.16	2,449,649,233	273,380,854
12xx Tier 2	5.36	1,067,654,496	57,226,281
		<b>3,517,303,729</b>	<b>330,607,135</b>
		<b>Variance</b>	<b>-580,480</b>
		Variance (%)	-0.18%

These results confirm BC Hydro's view that the existing MGS and LGS Part 1 rates recover the same revenue as the previous applicable default rate and therefore do not harm other ratepayers.

<sup>6</sup> Forecast F2017 MGS load is from Table H-1A-31 of Exhibit B-1. Tier 2 load is derived by forecast total MGS load (row G) minus forecast MGS Tier 1 load (row A) in Table H-1A-31.

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Therefore, BC Hydro considers it unnecessary to consider other approaches such as used for RS 1823 customers in the event that BC Hydro's LGS and MGS flat rate proposals are not adopted in the longer term given the negligible revenue difference. Introducing a new rate would also add unnecessary additional costs in terms of tariff administration and customer communication.

### **3 Conclusion**

It is respectfully submitted that the evidence supports the Commission granting the Order sought from it by BC Hydro.

All interveners submitting final argument, with the sole exception of BCOAPO, provide unconditional support for the approval of BC Hydro's proposed pricing for new accounts in accordance with the terms of the draft Order provided as Appendix A-1A to Exhibit B-1. BCOAPO stated that it considers BC Hydro's proposed approach reasonable based on the information available subject to its two proposals. BC Hydro explained why it does not agree with BCOAPO's two proposals.

BC Hydro attaches a revised draft Order as Attachment 1 which includes the amended effective date of 1 April 2016 for new account pricing. BC Hydro is proposing this new effective date given the revised regulatory schedule provided by Exhibit A-4.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED 15 JANUARY 2015**

Per: Craig Godsoe

Craig Godsoe, Solicitor & Counsel,  
British Columbia Hydro and Power Authority

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**2015 Rate Design Application**  
**Medium General Service and Large General Service**  
**New Account 85/15 Pricing Amendments**

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**Attachment 1**

**Revised Draft Order**

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

and

An Application by the British Columbia Hydro and Power Authority  
2015 Rate Design Application (Module 1)

**BEFORE:** \_\_\_\_\_, Commissioners

February 10, 2016

**ORDER**

**WHEREAS:**

- A. On September 24, 2015 British Columbia Hydro and Power Authority (**BC Hydro**) filed with the British Columbia Utilities Commission (**Commission**) the first module of a rate design application (**2015 RDA**).
- B. Among the various approvals sought in the 2015 RDA, BC Hydro proposed amendments to Rate Schedule 15xx and Rate Schedule 16xx to change the pricing for customers without historical baselines from 85 per cent of monthly consumption billed at the Part 1 energy rate and 15 per cent of monthly consumption billed at the Part 2 Long-Run Marginal Cost-based energy rate (**85/15 Pricing**) to 100 per cent of the monthly consumption billed at the Part 1 energy rate (**100 per cent Part 1 Pricing**).
- C. BC Hydro also proposed an expedited written review process regarding the 85/15 Pricing comprised of one round of information requests (**IRs**) followed by written submissions.
- D. By Order G-175-15 dated November 3, 2015 the Commission established a regulatory process for the review of the 85/15 Pricing, consisting of an initial round of IRs due December 18, 2015 followed by intervener final arguments on the proposal by January 8, 2016, and BC Hydro reply argument by January 15, 2016.

**NOW THEREFORE** pursuant to sections 58-61 of the *Utilities Commission Act* the Commission orders as follows:

- 1. The amendments to Rate Schedules 1500, 1501, 1510, 1511, 1600, 1601, 1610 and 1611 changing the pricing for customers without historical baselines from 85/15 Pricing to 100 per cent Part 1 Pricing, as shown in draft tariff sheets of Appendix F-1A of the 2015 RDA, are approved effective April 1, 2016.
- 2. BC Hydro is directed to file the amended tariffs within 15 business days of the date of this order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 10th day of February, 2016.

BY ORDER