

E-Plus Homeowners Group

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British Columbia Utilities Commission
6th Floor – 900 Howe Street
Vancouver, BC V6Z 2V3
Attention: Laurel Ross, Acting Commission Secretary

Dear Madam:

**Re: British Columbia Hydro and Power Authority (BC Hydro)
Project No. 3698781/G-156-15
2015 Rate Design Application
E-Plus Homeowners Group (EPHG) Arguments in Response to “BC Hydro Final
Arguments, Sept. 26, 2016”**

Attached find the subject document.

Yours truly,

Gary McCaig – for E-Plus Homeowners Group

**Re: British Columbia Hydro and Power Authority (BC Hydro)
Project No. 3698781/G-156-15
2015 Rate Design Application**

E-Plus Homeowners Group (EPHG) – Arguments made in response to BC Hydro “ Final Argument – September 26, 2016”

The EPHG arguments in respect to the Residential E-Plus rate (RS 1105) were presented in a submission dated May 18, 2016 (the EPHG “Submission”).

Those arguments remain unchanged and we will not repeat or expand upon them in this document, other than to address what we believe to be inaccuracies, oversights or omissions in the BC Hydro Final Argument (“the Argument”). These occur both in BC Hydro’s defense of their proposal and in their representations regarding EPHG’s position, as follows:

1.0 Assurances that interruptions will be confined to the October to April period are disingenuous

In Section 62, page 30 of the Argument BC Hydro provides an assurance that “interruptions will be confined to October to April”. This is apparently an attempt to demonstrate that BC Hydro have considered the input of E-Plus customers and attempted to find a compromise in their proposed “business practice”.

EPHG consider this assurance to be disingenuous. October to April is exactly the period when heating is required in most parts of British Columbia, and having assured E-Plus heat outside of that period is of near negligible value.

In our Submission EPHG made considerable input regarding BC Hydro’s proposed business practice regarding the initiation and management of interruptions of E-Plus power, particularly in regard to two key areas of concern: adequate notice and priority over other users of non-firm power. The fact that BC Hydro dismissed this input and instead makes the disingenuous proposal noted shows a lack of respect for both E-Plus customers and the current review process. The BC Hydro “assurance” would in no way offset the loss of adequate notice and priority.

2.0 Two days notice of interruptions is unreasonable, and not a “balanced” solution

In section 62 and footnote #103, on page 30 of the Argument, BC Hydro states their intention to provide only two days notice of interruptions and describes this as striking “a balance”. (The current provision is for 30 days notice).

At no time has BC Hydro attempted to seriously address the valid concerns of customers regarding the difficulties of managing with such short notice, as outlined in Section 4.2, page 23, of the EPHG Submission, including:

- *“E-Plus customers might be travelling, hospitalized, working away from home or otherwise be unavailable to receive and promptly react to a shorter notice period. A 2-day notice period would make them prisoners in their own homes during the heating season.”*

- *“BC Hydro has established harsh consequences for those who do not properly react, charging the punitive rate of 30.37 cents/kW hour and/or permanently removing the customer from E-Plus service if power is used for heating during interruptions.”*
- *“If extended curtailments were initiated automatically or manually by Hydro, and a customer was not properly informed and prepared, there would be risk of substantial property damage or in the worst case health consequences for the homeowner, due to unavailability of heat.”*

Changing to back-up heating to deal with a prolonged loss of E-Plus power is not a trivial matter, especially for an elderly and vulnerable group of customers. It requires preparation, the physical presence of the homeowner or some other responsible person, and continuous monitoring to ensure safety.

3.0 The proposal to remove the clause “cannot be provided economically from other sources” from the RS language has not been justified

In section 65, page 31, of the Argument BC Hydro reaffirms their proposal to modify the wording of the Special Conditions of RS 1105 to remove the clause stating that E-Plus service will only be interrupted when “the service cannot be provided economically from other energy sources.” This is a significant change and yet BC Hydro has not provided any reasonable justification for proposing it.

The BC Hydro proposal begs the rather obvious question – “Why would they not continue to supply power to E-Plus customers when they can do so economically”? BCHG queried this in their Submission, Section 3.1 page 7:

“Additionally, BC Hydro has not explained why they believe the language of Special Condition 1 must be changed to remove the requirement for them to provide electricity ‘economically from other sources’ before interrupting. That provision of the current language seems eminently reasonable rather than restrictive, and removing it an obvious attempt to create additional interruptions.”

In the Argument, BC Hydro makes no attempt to address that question, or to provide any sort of justification for this part of their proposal. To the contrary, in Section 62 page 32, they admit, “there are periods when BC Hydro is short of energy and it is economical to purchase energy from the spot market. Current and forecast spot market prices, for at least 5 years, are well below the 1105 discounted energy rate of 5.22 cents/kWh (F2016)”.

To curtail E-Plus customers when power could be supplied to them economically is nothing short of coercion and should not be facilitated nor allowed by the BCUC.

4.0 BC Hydro’s contention that E-Plus rates result in higher rates for other customer’s rates is based on flawed analysis

In section 69, page 33, BC Hydro states: “maintaining the E-Plus rate without changes does not seem fair to BC Hydro and its other customers **who effectively make up the E-Plus discount through rates that are somewhat higher than they otherwise would be**” (emphasis added). EPHG believe this to be little more than speculation, based on a flawed analysis. It appears to flow from BC Hydro’s response to BCUC IR No. 2, 2.148.2 in which they state “Incremental revenues to BC Hydro if all E-Plus customers transitioned onto the RIB rate for all their electricity consumptions would amount to about \$6 million at current rates. This would translate into a rate decrease to non-participating customers of about 0.3%”.

As argued by EPHG in Section 3.2, page 8 of their Submission this statement was seriously flawed for a number of reasons. To begin with, it is incorrect to present a calculation based on E-Plus customers transitioning to RIB rates. Few if any would have installed electric heat if they had not been assured of discounted rates, so their use represented added sales for BC Hydro. At current Tier 2 levels electric heat would be the most expensive heating method, and if E-Plus customers lose the rate they would do whatever they could to reduce their use of electricity through increasing their use of backup wood or fossil fuel heat and, if they were able to afford the considerable installation expense, would move to alternate heating systems.

The EPHG Submission went on to point out a number of other difficulties in doing the sort of financial analysis attempted by BC Hydro, including allowing for the investments made by E-Plus customers and their contribution to BC Hydro profits in the past, and the considerable expense those customers would face in transitioning off electric heat. BC Hydro continues to ignore those important factors.

In any case, BC Hydro is attempting to make what is little more than a theoretical argument, of no practical consequence. E-Plus sales account for less than 0.1 % of BC Hydro's revenues (2015 Rate Design Application – 5.3.2. page 5-49) and the number of E-Plus customers is falling rapidly by attrition. Would BC Hydro really be prepared to reduce general rates if E-Plus usage falls even more rapidly under their current proposal, or disappears completely? That seems highly unlikely.

5.0 Contrary to their repeated claims BC Hydro did not adequately engage the primary stakeholders, specifically E-Plus customers, or seriously consider their concerns

In section 67, page 32 of the Argument BC Hydro states: “as part of its extensive engagement with respect to the proposals contained in the RDA, BC Hydro identified and considered three options with respect to the E-Plus rate”.

Further, in section 80, page 36 of the Argument BC Hydro states: “ EPHG also makes numerous allegations with respect to the quality and frequency of engagement with its members, and specifically that E-Plus members concerns have been ignored. BC Hydro has in fact done the opposite....”

EPHG stand by our allegations. BC Hydro's claims are not supported by the facts.

In Section 3.3, beginning on page 9 of our Submission, we reviewed BC Hydro's process of “consultations” on the 2015 RDA in detail. The most pertinent parts of that review are:

“At workshops held in May of 2014 in preparation for the 2015 RDA, BC Hydro proposed to ‘maintain attrition approach’ for the Residential E-Plus program.”

“At least 22 ‘stakeholder groups’ attended that workshop, however no individuals or groups representing E-Plus customers were notified or invited and consequently had no chance to provide information or make input. Specifically, the EPHG was not invited even though they had been active interveners representing Residential E-Plus customers in the 2007 RDA.”

“in the absence of any consultation with those directly affected, BC Hydro changed their initial position and undertook a review of the possibility of terminating the residential E-Plus program. They sent out mailings and held information sessions asking E-Plus customers to give input on two Options: Option 1 Maintain the Rate and Option 2 ‘Phase out’ the Rate.”

“BC Hydro assured customers that only these two options were on the table.”

“Subsequently, in May 2015, BC Hydro held a second workshop ‘9-B’ for ‘stakeholders’ and again no E-Plus customers or their representatives were invited. At this workshop BC Hydro proposed a new option, Option 3 – ‘Amend RS 1105 Special Condition 1 to provide a practical interruptible option’. This Option forms the basis of their current Application.”

“The E-Plus customers who would be directly affected by the decision to move to Option 3 were given no opportunity to make input or participate in the decision process. When they were finally told that an Option 3 had been generated and was to be the basis of the 2015 RDA, in a letter dated August 26, 2015, this was already a ‘fait accompli’. Option 3 was presented to E-Plus customers as a seemingly benign ‘update’ in language that was overshadowed by the welcome news (for customers) that the E-Plus rate itself would be maintained. It is unlikely that more than a handful of customers who read this letter understood the significance of the changes proposed to Special Condition 1 of the Rate Schedule, or its potential ramifications for them.”

It is a fact that the key decisions by BC Hydro, first to drop their initial position of leaving the rate to end by attrition, and second to introduce “Option 3” were made with no input from customers. Furthermore, no individual customers were consulted regarding the “Business Practice” that will define Option 3, and the input of EPHG in that regard appears to have been totally ignored.

Specifically, the EPHG Submission (Section 4.0, page 13) identified two key prior understandings that were considered to be the top priorities for a proposed Business Practice:

1. Residential E-Plus customers will be given priority over other non-firm power customers
2. Residential E-Plus customers will be given 30 days notice of interruptions longer than a few hours.

Despite considerable input on these points, including clear evidence that these understandings currently exist, BC Hydro has chosen to totally ignore the first, refusing to acknowledge its existence or speak to it, and in the case of the second have chosen to arbitrarily impose a reduction to only 2 days notice with no recognition of the serious problems that would cause for customers.

6.0 BC Hydro’s statement that the length of time for natural attrition of E-Plus is 25 years can be misconstrued

In section 68, page 33 of the Argument, BC Hydro states that they “considered the natural termination of the E-Plus rate for residential customers which it estimates to be 20 -25 years.” If taken in isolation this statement is misleading.

The question of the rate of natural attrition is an important one, since BC Hydro initially proposed leaving E-Plus to end naturally by attrition, and this is the approach that has been supported by E-Plus customers, so it was dealt with in detail in the EPHG Submission (section 3.2, page 9), as follows.

“Any potential returns from changing the E-Plus program must be viewed in light of the relatively small number of E-Plus customers and the ongoing decrease in their numbers since the action taken following the 2007 RDA to end “transferability” to new purchasers of E-Plus homes. The rate of decrease is driven primarily by demographics; as customers grow older they move to other homes, or die. In 2015 over 80 % of E-Plus customers were over 55 years of age, 50% over 65. As a result their numbers are falling rapidly in an

exponential manner; the decrease of 754 customers (10%) from 8177 to 7423 between 2015 and 2016 was the largest ever in a single year, and the total decrease since transferability was ended has risen to 37%. Of course some customers may 'hang on' for many more years. In reply to an IR BC Hydro has estimated as much as 25 years will pass before all have left the program, but that estimate is largely irrelevant as the numbers will be very small in a much shorter time frame, and even now residential E-Plus customers account for less than 0.1% of BC Hydro's total revenues" (Ref. BC Hydro 2015 Rate Design Application 5.3.2. page 5-49).

In summary, while it might very well be possible that a handful of very elderly E-Plus customers will be still living in their own homes and using the E- plus rate in 20-25 years, the reality is that the vast majority of customers would have left the program in a much shorter time.

7.0 The BC Hydro Argument misrepresents EPHG's position regarding the possibility of a "contract" between E-Plus customers and BC Hydro

In section 75, page 35 of the Argument BC Hydro states: "The main thrust of EPHG's evidence centers around the proposition that BC Hydro made a contract with its members and that those contracts should be honoured by BC Hydro and immune to any further modification."

In section 76 they go on to state: "While EPHG state 'that they are not disputing the jurisdiction of the BCUC, implicit in their argument is that E-Plus service is provided to its members not under a rate established pursuant to the UCA but rather under a private contract that is somehow exempt from the Commissions rate-setting powers or jurisdiction."

It appears that rather than addressing the arguments of EPHG directly, BC Hydro is instead attempting to reduce them to a simple matter of whether a contract exists between the two parties, so they might then refute that by referring to the BCUC decision in the 2007 RDA.

However, BC Hydro's statements (above) regarding EPHG's position are demonstrably false. EPHG went out of its way in its Submission to make it clear that it was not making arguments based on the existence of any possible contract with BC Hydro, but were instead asking that BC Hydro recognize previous commitments as a matter of fairness, and because there was a logical basis for these commitments. For example, in Section 1, page 3 of their Submission EPHG state (emphasis added):

*Without revisiting those earlier arguments regarding the enforceability of BC Hydro's commitments, we submit that they should be recognized and given strong consideration by both BC Hydro and the BCUC **as a matter of fairness to customers, ethical business practice, and to protect the integrity of the process of power supply and regulation in British Columbia and the public's faith in that process.***

The Submission went on to make it clear that EPHG was not denying that changes were possible, but instead asking that they be based on "compelling arguments".

"We believe there is an onus on BC Hydro to present compelling arguments in support of any application for changes to RS 1105 or to the way such changes are implemented through a Business Practice. This is especially true when those changes directly impinge on the prior understandings on which the rate was originally established and on which customers made long term commitments to join the E-Plus program.

Tests that were applied by the BCUC in the 2007 RDA include ‘just, reasonable and not unduly discriminatory.’ We submit that BC Hydro has failed to meet this standard, in several areas:

In no place in the Submission do EPHG present arguments based on a claimed “contract” with BC Hydro and in no place do they dispute the authority of the BCUC. This was confirmed in the response to an Information Request from the BCUC (British Columbia Utilities Commission – Information Request No. 1 to E-Plus Homeowners Group): the relevant questions and the EPHG response being as follows (emphasis added).

- 3.1 “Please confirm that in the BCUC 2007 RDA decision¹, the Commission, on page 133, made the determination that it was not persuaded by the E-Plus Group’s argument that its members have “contracts” with BC Hydro. If not confirmed, please provide EPHG’s interpretation.
- 3.2 Please confirm that in the BCUC 2007 RDA decision, the Commission did not find the relationship between BC Hydro and its E-Plus customers to be of a commercial nature. If not confirmed, please provide EPHG’s interpretation.

Response to IR 3.1 and 3.2:

EPHG’s understanding of the findings of the Commission in the 2007 RDA decision is that the Panel drew a clear distinction between their jurisdiction over BC Hydro rates and any “commercial agreement” that might exist between BC Hydro and E-Plus customers in regard to those rates.

*In regard to IR 3.1, our interpretation is that the Panel confirmed their “statutory jurisdiction over rates”, and that flowing from this they could not be bound by any argument that agreements relating to rates constituted a “contract” between BC Hydro and customers as that would compromise their jurisdiction. **Acknowledging that decision, EPHG is not arguing in this hearing that a contract exists between its members and BC Hydro**, although we take that position without prejudice to the rights of E-Plus customers to take action against BC Hydro under commercial law.*

In that regard we do not agree with the interpretation proposed in IR 3.2. Rather we interpret the Commission’s decision as acknowledging that a relationship of a “commercial nature” might exist, while taking no position on this matter. We base our interpretation on the statement on page 133 of the decision, “The Commission Panel will make no findings as to the nature of the commercial relationship that might exist between BC Hydro and its E-Plus customers”, as well as the statement on page 134 where in regard to a specific point of argument the Commission stated, “if it remains an issue, it is a commercial issue between BC Hydro and its E-Plus customers which is more appropriate for determination by the courts, if necessary”.

Regardless, as quoted in the question statement, we believe that commitments made by BC Hydro to E-Plus customers should be given strong consideration by the BCUC as “a matter of fairness to customers, ethical business practice, and to protect the integrity of the process of power supply and regulation in British Columbia and the publics’ faith in that process”.