

Letter of Comment

In accordance with the Commission's Rules of Practice and Procedure, to submit a letter of comment concerning an application currently before the Commission, please provide a completed form to commission.secretary@bcuc.com. If email is unavailable, please mail the form to the address above. By doing so, you acknowledge that all letters of comment are published with the author's name as part of the public evidentiary record, both in print copy and on the Commission's website. All personal contact information provided on this page is removed before posting to the website. Forms must be received by the Commission by the last filing date included in the proceeding's regulatory timetable before final arguments.

Proceeding name: BCUC RIB Rate Report

Are you currently registered as an intervener or interested party? [Yes / No]

Yes, an intervener

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Letter of Comment

Name (first and last): NICHOLAS MARTY

Date: November 29, 2016

Comment: Please specify the reasons for your interest in the proceeding, your views concerning the proceeding, any relevant information that supports or explains your views, the conclusion you support and any recommendations. The Commission may disallow comments that do not comply with the Rules of Practice and Procedure.

[Please write your comments in this box]

This submission is a supplement to the “Marty Utility Report Comments” of October 19, 2016, in response to “BCSEA Utility Report Comments” of November 24, 2016. In the latter submission, BCSEA states that their comments are, in part, based on a review of my October submission. On several occasions, they question the accuracy of my analysis and they conclude that “serious factual misconceptions underlay many of the criticisms of the RIB rates filed in these proceedings”. These are serious charges and I wish to have my response to them placed on the record in these proceedings.

First, I would like to remind the BCUC of my qualifications. From 1989 to 2007, as a senior manager in the Federal Government, I was involved in the development, implementation and assessment of virtually every federal initiative aimed at enhancing energy conservation and efficiency and reducing greenhouse gas emissions. I also played a leading role in many federal-provincial and stakeholder fora to identify and assess potential initiatives to reduce greenhouse gas emissions associated with energy use. I can assure the BCUC that there are no factual misconceptions in my Utility Report Comments.

That said, I agree with BCSEA that there are many misconceptions concerning the RIB, some of which are reflected in the phrasing of the Minister’s questions. I also agree with BCSEA, that it is important that the BCUC not confine itself to simply answering the questions as posed. The BCUC’s response to the Minister needs to clear up the various misconceptions concerning the RIB; thereby providing the Minister and the public with clarity on this issue. It would have been good if the Utility Reports had provided such clarity but in attempting to answer the specific questions of the Minister, these reports have unfortunately only created further confusion.

It is evident that there are many misconceptions concerning the RIB because the BC Government, the BCUC and the Utilities have all made statements concerning the RIB that are factually incorrect.

The BC Government has stated that “RIB rates are designed to create an incentive for conserving electricity by reflecting the higher cost new electricity generation without raising rates overall. These rates are not designed as incentive to fuel switch”. Not true. Consumers that use electricity for space and water heating had their rates raised considerably, are now paying rates significantly above the cost of new electricity generation. As well, they and are being incented to switch to natural gas, where available, and to wood or heating oil, where natural gas is not available.

The BCUC has stated that the conservation rate is intended to create conservation awareness among all users. This may have been the intention but it has not been the result. The RIB, as designed, reduced the electricity bills of more than 70% of BC’s customers and as a result, a survey by Fortis found that 71% of its customers were not aware at all of the Residential Conservation Rate (RCR). Only 5% of Fortis’ customers were very

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aware of the RCR.

Fortis stated, soon after the RCR was implemented, that “the only way a residential customer’s bill can dramatically increase is by a similar increase in consumption”. Not true. Many customers who use electricity for space and water heating experienced major increases in their bills even though their consumption declined.

BC Hydro has told the Minister that the RIB rates are not resulting in higher greenhouse gas emissions. Not true. The RIB is raising rates on those BC residents who are using renewable, non-emitting hydro for space and water heating while reducing rates for those residents who are burning fossil fuels for space and water heating. Such price signals will, without doubt, lead to an increase in greenhouse gas and other air emissions.

Indeed, the fact that the RIB, as structured, is having, and will continue to have, a negative effect on the environment compared to other rate designs, such as flat and time-of-use rates, indicates that BCSEA has its own serious misconceptions about what is going on. Otherwise, why would they be recommending an option that is having a negative impact on the environment; an outcome that would appear to be contrary to the wishes of their members?

The major misconceptions concerning the RIB are as follows:

1. The RIB is a properly designed two-tier rate. It is not. The appropriate design of such a two-tier system would have set the tier 2 rate equal to the marginal cost of new generation and would have segmented customers into homogeneous groups with different tier 2 thresholds for each group. The RIB that is actually in force has set the tier 2 rate way above marginal cost and has one fixed tier 2 threshold being applied to an extremely heterogeneous set of customers.
2. The consumers most negatively affected by the RIB are those without access to natural gas. Not true. The consumers most negatively affected by the RIB are those who use electricity as their major source of energy for space and water heating. While many customers who use electricity for space and water heating are without access to natural gas, a significant number of customers without access to natural gas use wood as either a primary or secondary source of heat. In addition, there are customers with “access” to natural gas who continue to use electricity, at least for space heating, because the cost of conversion is too high. Assessing the existence of cross-subsidization between customers by examining those with and without access to natural gas greatly underestimates what is happening. There are those in the “without access group” who are benefitting from the RIB (i.e. those using wood or heating oil for space heating) and who are on the receiving end of the cross-subsidy. And there are those in the “with access to natural gas group” who are paying significantly higher rates due to the RIB (because they are still using electricity for heating) who are on the paying end of the cross-subsidy.
3. The inability to statistically prove, at a high confidence level, that there is cross-subsidization caused by the RIB can be interpreted as proof that such cross-subsidization doesn't exist. To assess the full extent of the cross-subsidization that is happening under the RIB, it is necessary to isolate, analytically, those who are paying and those who are receiving. Unfortunately, that is very difficult to do with any degree of precision. The utilities were unable to collect sufficient data to properly isolate those customers with access to natural gas from those who do not, leading to inconclusive results. To isolate statistically those customers who only use electricity for space and water heating is impossible without conducting a full blown statistical survey. But, such an elaborate analytical exercise is not necessary to answer the simple question of whether cross-subsidization is resulting from the RIB. As BCSEA points out, when the RIB was introduced, rates were reduced for more than 70% of customers. How did this happen? Did BC Hydro and Fortis agree to accept reduced rates of return? No. The introduction of the RIB was designed to be revenue neutral for the utilities. The majority of BC residents “benefitted” from rate reductions because a minority of residents (around 5%)

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experienced major rate hikes. Cross-subsidization is “the practice of charging higher prices to one group of customers to subsidize lower prices for another group”. That is clearly what is happening here and the utilities could have quantified the extent to which it is occurring if they had decided to address the intent of the Minister's question rather than the strict wording about customers with and without access to natural gas. The utilities certainly have the data to quantify how much more the 5% minority of customers are paying relative to the flat rate to financially benefit the majority of BC residents. The challenge is in identifying the makeup of the 5%; although the one thing that is clear in this regard is that the majority of those in the 5% group are those that are using renewable, emission-free hydro rather than fossil fuels for space and water heating

4. Any cross-subsidization caused by the RIB is justified by the existence of postage stamp distribution rates.

The Minister's question was clear “do the RIB rates cause cross-subsidy”. The Minister did not ask whether the combination of RIB rates and postage stamp rates cause cross-subsidy. In fact, it is clear from previous Government statements that the appropriateness of postage stamp rates is not up for debate. The Government has stated on numerous occasions that postage stamp rates are Government policy on the basis that “all customers jointly develop electricity resources and should equally share in the costs”. According to BC Hydro “Postage stamp is the accepted approach to rate-making in the majority of North American jurisdictions. The application of postage stamp rates to BC Hydro’s service area has been in place for decades and continues to remain a cornerstone of rate design for BC Hydro”. Whether or not postage stamp rates constitute cross-subsidization (and the Government’s statement appears to signify that they do not believe this to be the case) is not relevant to these proceedings. To claim that postage stamp cross-subsidization somehow justifies the cross-subsidization caused by the RIB will not bring clarity to the issue but will only serve to confuse.

5. “High” electricity consumers are “high” energy consumers and must therefore have high incomes, live in big houses, be energy inefficient and indulge in energy “wasteful” activities such as having hot tubs. There is absolutely no evidence to support this view. Most “high” electricity consumers have “high” levels of electricity consumption simply because they use electricity rather than natural gas for space and water heating and space and water heating account, on average, for 77% of BC residential energy use. The fact is that “high” users of electricity (i.e. those that use electricity for space and water heating) are likely to be more energy efficient and use less total energy than “low” electricity consumers with similar residences. Most “low” electricity consumers are in that position because they use fossil fuels rather than hydro electricity for heating. And according to Fortis, (using the Southern Interior of BC as an example) the annual cost of heating with natural gas is 77% lower than the cost of heating with electricity. So, since “high” electricity consumers have long been experiencing much higher energy bills than those using fossil fuels for heating, it stands to reason that they are likely to be more energy efficient. Moreover, because it is not necessary to have a big house and a hot tub to be a “high” electricity consumer (all that is required is to use electricity rather than fossil fuels for space and water heating), it follows that low-income residents can be just as likely to be “high” electricity users as medium and high-income users.

6. Price discrimination is legitimate if the number of customers negatively affected is small. Price discrimination occurs when different customers are charged different rates for the same good or service. Monopolies, if allowed, will engage in price discrimination to maximize their revenues by charging higher rates to those customers who have limited substitution alternatives. One of the major reasons that governments regulate monopolies, such as electric utilities, is to prevent such price discrimination which is both unfair and economically inefficient. Thus, the BCUC, like most regulatory bodies in the world, was given the mandate to ensure “non-discriminatory energy services at fair rates from the utilities it regulates”. The RIB charges different rates to different customers for the same service and constitutes price discrimination. Indeed, under the RIB rates, a customer that uses electricity for space and water heating will pay a higher per unit rate simply because he lives in one of BC’s colder regions. This discrimination has been justified on the basis that it only significantly impacts 5% of customers but discrimination is discrimination regardless of how many people are affected. It is the BCUC’s mandated responsibility to protect all utility customers from such

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discrimination not just 95% of them.

7. The conservation rate should be financially “benefitting” the majority of customers. Fortis stated, soon after the RIB was introduced in its service area, that “the majority of our customers have benefitted with lower rates and that was the original intent, and the intent of the BCUC, when it approved our application”. Neither the BCUC nor the Utilities have ever explained why a “conservation” rate would be designed to reduce the price of electricity to the majority of BC residents when it should be doing the exact opposite. And now BC Hydro and BCSEA are arguing that the RIB should not be altered or replaced by a different rate system (such as a flat rate) because some of the customers who were inappropriately granted rate reductions are low-income customers who would see their rates increase as a result of correcting the RIB’s design flaws. While it is a responsibility of the BCUC to consider the implications of changing rate structures on low income customers, the BCUC has placed the cart before the horse in implementing the RIB. It is a cornerstone of policy development that the first step in encouraging an energy efficient economy, and hence an environmentally sound one, is to ensure that the pricing system is providing the correct signals. Conservation rates should first and foremost be aimed at encouraging optimal energy efficiency levels among all customers not in redistributing income from perceived wealthier customers to lower-income customers. To the extent there is concern about the adverse financial impacts of resulting rate increases on customers (low-income or otherwise), these concerns are best addressed outside of the pricing structure through such actions as DSM programs or income-tax measures.

8. Two-tier rates are the most effective conservation rate system and are superior to flat rates. The RIB, as structured, has not been very effective at encouraging conservation. And it has certainly not met the conservation objectives set out at the time of its implementation. It has not resulted in the optimal level of conservation, giving a clear conservation price signal only to a very small percentage of total customers (while actually encouraging the majority of customers to be less energy efficient). Moreover, the RIB, as structured, is charging rates significantly above marginal cost to customers who use electricity for space and water heating causing them to over-conserve. BCSEA may believe that more conservation is always better but like losing weight this is not always the case. There is an optimal level of conservation (i.e. the level that reflects the marginal cost of generation) and to exceed that level is economically inefficient, contrary to Government policy and can impose high personal costs on the over-consuming customer. Many of the personal costs being incurred under the RIB are described in the letters of comment that have been submitted to these proceedings and some of these costs are of a very serious nature. BCSEA raises the question of whether or not these customers are “paying too much for electricity”. From a conservation and economic efficiency point of view, the answer is a clear yes.

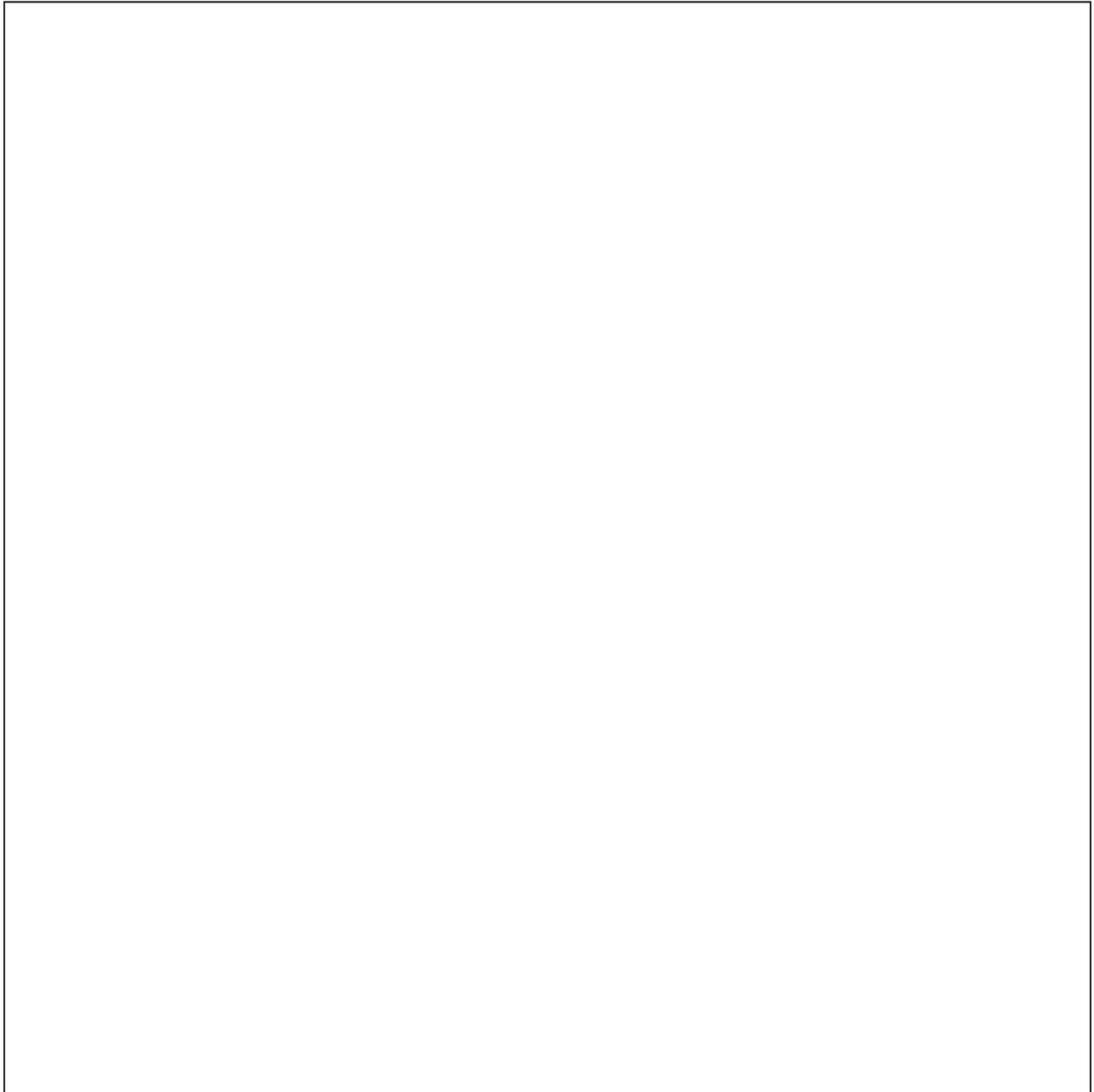
Despite the many design flaws associated with the RIB, the BCSEA still seems to think that the RIB, from an energy conservation perspective, is superior to a return to the flat rate. However, Fortis has made it clear in their report that the marginal cost of new generation is roughly equal to what the flat rate would be. So, the flat rate, unlike the RIB, would actually result in the economically optimum level of conservation; it would satisfy BCUC’s objective of creating “conservation awareness among all users” and it would satisfy the BCUC’s mandate of ensuring non-discriminatory energy services at fair rates. That said, there is an area where a flat rate would not be fully effective. With a hydro-based electricity system such as BC’s, it is conservation during peak hours that really matters; saving electricity during the night may not produce any benefits. This is because conservation at peak time enables the postponement of additional capacity, which is the prime conservation objective for an emission-free hydro-based electricity system. The Government has stated its opposition to mandatory time-of-use rates because customers would have no option to opt out to another rate. Interestingly, when the BCUC required Fortis to implement the two-tier rate system they forbid the Utility from offering time-of-use rates to its customers; thereby providing them with no option to opt to another rate. In any event, an optional time-of-use rate offered to those capable of load-shifting, combined with a default flat rate for those unable to load-shift would represent the most effective conservation rate system for BC and one that is far superior to the RIB, as currently structured.

9. Two-tier rates are the most effective rate system for supporting the Government’s plans to reduce

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greenhouse gas and other air emissions. Ninety-nine percent of BC's residential sector greenhouse gas emissions come from space and water heating. Natural gas is the major source but burning oil, propane or wood will also generate emissions. By increasing electricity rates to excessively high levels for space and water heating, the RIB is encouraging customers to switch from emission-free hydro to emission-producing fossil fuels; natural gas where it is available and wood and heating oil where natural gas is not available. Solar is not a cost-effective alternative for space and water heating for most BC residents. Minister Bennett has stated that clean energy (i.e. hydro power) is in surplus in BC and that the Government is focusing on expanding the use of electricity including "encouraging people to switch to electric cars". Yet, the RIB is penalizing residents who use clean hydro for space and water heating while rewarding those who use fossil fuels for this purpose. Charging higher rates for those who use more electricity discourages the use of clean hydro power for space and water heating as well as for the home charging of electric vehicles. To expand the use of clean hydro power in B.C. and thereby reduce the Province's dependency on fossil fuels, the Government should probably be charging lower electricity rates for those residential customers using larger amounts of electricity. Again, a flat rate combined with optional time-of-use, represents the superior option. The flat rate would not penalize residents who have no or low-carbon households, like the RIB does, and time-of-use rates would provide an incentive for residents to own electric vehicles because they could charge them at home overnight when the electricity rates would be lower.

The BCUC has made it clear that this proceeding is not a process to alter rates but rather to gather information and to provide analysis and conclusions. In submitting its report to the Minister, the BCUC would be remiss if it did not clear up the many misconceptions described above and inform the Minister that the RIB, as structured, is not meeting the Government's stated policy objectives and needs either to be significantly restructured or replaced with an alternative rate system. The BCUC should make it clear to the Minister, that there are a number of adverse impacts resulting from the RIB, as structured, and that there is a need to convene a rate hearing as soon as possible, involving both BC Hydro and FortisBC, to assess and implement the best rate option for meeting the Government's energy and environmental policy objectives.



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