

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF the *Utilities Commission Act*,

R.S.B.C. 1996, CHAPTER 473

and

FortisBC Inc.

2017 Cost of Service Analysis and Rate Design Application

BCUC Project No.1598939

FINAL SUBMISSION OF

ANARCHIST MOUNTAIN COMMUNITY SOCIETY (“AMCS”)

AND

REGIONAL DISTRICT OF OKANAGAN-SIMILKAMEEN (“RDOS”)

7 November 2018

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I. INTRODUCTION

1. This argument is submitted on behalf of the Anarchist Mountain Community Society (“**AMCS**”) and the Regional District of Okanagan-Similkameen (“**RDOS**”).
2. AMCS represents a community of about 170 home and 300 residents. RDOS represents about 83,000 residents
3. AMCS and RDOS are focusing on two aspects of the FortisBC Inc. (“**FBC**”) 2017 Cost of Service Analysis and Rate Design Application (the “**Application**”).
 - a. Residential Inclining Balance (“**RIB**”) Rate – the two-tiered Residential Conservation Rate (“**RCR**”), and
 - b. Time of Use (“**TOU**”) Rates
4. AMCS-RDOS and FBC agree that residential customers would be better served by a return to the flat rate in place of the RCR. The point of departure is over the timing of the return to the flat rate.
 - a. FBC requests a return to a flat rate, but with a five-year phase-out of the RCR.
 - b. AMCS-RDOS request an immediate termination of the RCR and return to a flat rate.
5. FBC’s proposal to phase-out the RCR has profound economic implications for residential customers. Sound rate-making principles and basic fairness require an immediate termination of the RCR to end the hardship it has caused over the years it has been in effect. An immediate return to the flat rate will ensure all residential customers pay fair and non-discriminatory rates that promote efficient and environmentally consumption. The follow discussion elaborates.

II. RESIDENTIAL RATE DESIGN PRINCIPLES – FBC’S PERSPECTIVE

6. In its Final Argument, FBC states:

“FBC lists and describes the principles of rate design, including the Bonbright principles that feature prominently in most rate applications before the BCUC. As noted, FBC has applied its experience and judgment to consider and balance the most relevant principles in a given context when identifying rate design issues and proposing rate design solutions”.¹

“The principles that have been relied upon by FBC, both those articulated by Bonbright and the additional constructs upon which particular rate proposals rest, are appropriately considered in the Application and in the view of FBC are supportive of the rate changes incorporated therein”.²

7. While FBC describes the principles, it does not

- a. assess the RCR against the Bonbright Principles [presumably because FBC agrees the RCR should be phased out], or
- b. explain how these principles support the five-year phase-out period.

8. It is essential for the Commission to consider the underlying rate-making principles when assessing the reasonableness of the five-year phase-out of the RCR against the immediate return to a flat rate. Continuing the RCR – at rate which FBC agrees must end – can only be justified by extraordinary and compelling reasons based on sound rate-making principles. FBC has not met this onus.

¹ FBC Final Submission, p 4, para 17

² FBC Final Submission, p 5, para 20

III. RESIDENTIAL RATE DESIGN PRINCIPLES – AMCS AND RDOS PERSPECTIVE

9. AMCS-RDOS submit that the RCR violates at least four of the Bonbright Principles and will continue to do so as long as the RCR remains in effect.

10. **Bonbright Principle 2: Fair apportionment of costs among customers**

a. FBC agrees that, under the current RCR, high use customers are paying rates above cost while low use customers are paying rates below cost:

“Given that the customer charge is below the unit cost associated with customer-related costs, FBC would expect, all else being equal, a customer with high use would be paying more than its cost of service and a customer with low use would be paying less than its cost of service. Further, because the COSA results do not indicate a cost difference by rate block, customers with larger than average consumption would have greater quantities subject to the upper block price and would likely be paying more than their cost of service”.³

b. Under the RCR, customers with more than 36% of their consumption in Tier 2 pay average rates that are above a cost-based flat rate, while those with less consumption in Tier 2 pay average rates below cost. Twenty per cent of customers are paying rates above cost and 80% of customers are paying rates below cost.⁴

c. As shown in Table 1 below, 5% of customers are currently paying rates more than 14% above the Flat Rate and 2% of customers are paying rates more than 20% above the flat rate.

³ FBC Response to AMCS-RDOS IR#1, 10.2. Exhibit B-10

⁴ AMCS-RDOS Evidence C3-7, Table 4.1, p 19

- d. Under FBC's phase-out of the RCR, these 5% of customers will still be paying rates 11-17% above cost in 2019 and 8-12% above cost in 2020.

TABLE 1
Rates and Bills Above Flat Rate for High-Use Electricity Customers

2018

Annual Consumption	Percent of Customers	Average RCR Rate (\$/kWh)	Average RCR Bill minus Flat Rate Bill	Percent RCR Rate is above Flat Rate
Above 35,000	2%	0.14547	\$1,716	21%
30,000-35,000	1%	0.13981	\$ 688	16%
25,000-30,000	2%	0.13681	\$ 495	14%

2019

Annual Consumption	Percent of Customers	Average RCR Rate (\$/kWh)	Average RCR Bill minus Flat Rate Bill	Percent RCR Rate is above Flat Rate
Above 35,000	2%	0.14035	\$1,403	17%
30,000-35,000	1%	0.13570	\$ 562	13%
25,000-30,000	2%	0.13324	\$ 404	11%

2020

Annual Consumption	Percent of Customers	Average RCR Rate (\$/kWh)	Average RCR Bill minus Flat Rate	Percent RCR Rate is above Flat Rate
Above 35,000	2%	0.13509	\$1,081	12%
30,000-35,000	1%	0.13150	\$ 433	9.5%
25,000-30,000	2%	0.12960	\$ 311	8%

Source for all Tables: FBC Response to AMCS-RDOS IR#1, 3.0, Exhibit B-10

Flat Rate = 12.02 cents/kWh

- e. Over the full four year transition (2019 through 2022), the 20% highest users of electricity will pay more than \$14 million beyond what they would pay under a cost-based flat rate.⁵
- f. Table 1 only estimates the total amount above cost being paid by high-use customers as a direct result of the RCR. It does not include the additional cost high-use customers pay due to the Customer Charge being below the unit cost associated with customer-related costs.

11. **Bonbright Principle 3: Price signals that encourage efficient use and discourage inefficient use**

- a. FBC has repeatedly acknowledged that the RCR is violating this principle

“The current level of the Block 2 price is above FortisBC’s current marginal price of electricity which in the opinion of the Company runs counter to the economically efficient setting of rates”.⁶

“The fact that the Tier 2 rate is 36% higher than the LRMC suggests that the Tier 2 rate exceeds the level that leads to economically efficient purchase decisions on the part of customers”.⁷

“In order to provide appropriate price signals for economically efficient consumption, the cost of power supply needs to be reflected in the rates”.⁸

- b. The fundamental rationale for RIB rates should be to satisfy Principle 3, yet the RCR does not satisfy Principle 3 or any of the other key rate design principles.

⁵ AMCS-RDOS Evidence C3-7, Table 4.4, p. 27

⁶ AMCS-RDOS Evidence, C3-7, p 14, citing FBC 2013 RCR Information Report, p 32

⁷ AMCS-RDOS Evidence, C3-7, p 17, citing FBC RIB Rate Submission, September 30, 2016, p 7

⁸ FBC Response to AMCS-RDOS IR#2, 1.1, Exhibit B-22

- i. The Tier 2 rate of 15.6 cents/kWh is 58% above the LRMC of 9.9 cents/kWh, and 30% above FBC's proposed flat rate of 12 cents/kWh.⁹
 - ii. The percentage of customer consumption in Tier 2 ranges from 0% to more than 73%, so the average rate paid by customers (before the Customer Charge and taxes) ranges from 10.1 cents/kWh to more than 14.5 cents/kWh.¹⁰
 - iii. Since FBC's LRMC (9.9 cents/kWh) is below the flat rate (12 cents/kWh), the flat rate would send the most accurate price signal for encouraging efficient consumption.
- c. 58% of FBC's customers use less than 10,000 kWh per year and, on average, have little or no consumption above the Tier 2 Threshold (9,600 kWh). These customers are deciding on their energy efficiency investments based on 10.1 cents/kWh; which is 16% below the flat rate. In effect, they are being encouraged to over-consume electricity.
 - d. Customers with significant consumption in Tier 2 are deciding on their energy efficiency investments based on 15.6 cents/kWh – which is 30% above the flat rate. These customers are being encouraged to under-consume electricity.

12. Bonbright Principle 6: Rate stability

- a. In 2011, FBC proposed a fixed threshold of 1600 kWh for a two-month billing period to be applied to all customers. That threshold fails to recognize the heterogeneous nature of electricity use in FBC's service area, and that some customers rely on electricity to meet their space and water heating needs.
- b. Space and water heating accounts for 78% of residential energy use. A customer who uses electricity for space and water heating will consume a substantial amount

⁹ FBC Response to AMCS-RDOS IR#2, 1.5, Exhibit B-22

¹⁰ AMCS-RDOS Evidence, C3-7, Table 4.1, p 19

of energy at Tier 2 rates during the winter months. The colder the climate zone and the colder the winter, the greater the amount of consumption in Tier 2.¹¹

- c. FBC's RCR evaluation reports have confirmed the impact of the RCR on electric heat customers:

“The key point here is that electric heat customers have higher annual consumption, on average, and as such would be expected to have relatively high adverse billing impacts if billed under the RCR. Furthermore, the bill impact has increased relative to the bill impacts contained within the Application due to the increasing spread between Tier 1 and Tier 2 rates”.¹²

- d. Customers that rely solely on electricity for space and water heating may be able to maintain their consumption at or below the bimonthly Threshold of 1600 kWh during non-winter months; thereby paying a rate of 10.1 cents/kWh. However, when winter comes their rate will rise as their consumption rises.
- e. Table 2 shows the rate increases that electric heat customers can experience in winter under the current RCR and throughout FBC's phase-out period. Such rate increases can be considerably higher for customers using baseboard heating and/or living in the coldest climate zones.

Table 2
Rate Variability for Electric Heat Customers

Customer Consuming 7,500 kWh (two month billing)	Winter Rate \$/kWh	Tier 1 Rate \$/kWh	Percent Rate Increase in Winter
Current RCR	0.144	0.101	+43%
Year 1	0.140	0.104	+35%
Year 2	0.136	0.108	+25%

¹¹ AMCS-RDOS Response to BCUC IR#1, 1.6, Exhibit C3-9

¹² AMCS-RDOS Evidence, C3-7, p 15, citing FBC 2014 RCR Information Report, p 16

Year 3	0.131	0.112	+17%
Year 4	0.126	0.116	+8.5%

Source: AMCS-RDOS Evidence, C3-7, Table 6.5, p 45

- f. Electric heat customers experience enormous fluctuations in their electricity rates throughout the year and major rate fluctuations will continue until the end of FBC's phase-out period. Even in Year 4, electric heat customers could experience rate increases in winter that are more than double the 3.5% rate increase that FBC considers to be acceptable. For residents living in the Okanagan Valley and using air conditioning during hot summers, there can be similar rate increases during summer months.

13. Bonbright Principle 8: Avoidance of undue discrimination (inter-class and intra-class equity must be maintained and, if possible, enhanced)

- a. FBC states:

“A basic premise in the introduction of an inclining block rate is that energy should become increasingly expensive as the level of consumption rises. Given that the overall revenue to be collected from the residential class is fixed, there is an inevitable shift in the revenue burden from low to high consumption customers.”¹³

- b. In contrast, AMCS-RDOS submit that the fundamental premise of inclining block rates is to have all customers basing their consumption decisions on LRMC – not to charge different rates to different customers based on their level of consumption.
- c. A correctly designed RIB rate would set different thresholds for different customers, using one of the following approaches:

¹³ FBC Response to AMCS/RDOS IR#2, 9.1, Exhibit B-22

1. the Customer Baseline Load (CBL) structure that sets the individual customer thresholds based on a percentage of historic use¹⁴; or
 2. the Segmentation structure that sets different thresholds for different sub-classes of residential customers defined by their characteristics including, for example, the location or type of primary heat source.¹⁵
- d. Designing a RIB Rate with multiple thresholds is challenging. However, the challenges do not justify adopting a simpler but incorrect threshold design that unfairly discriminates against customers whose electricity consumption is greater than the FBC customer average. FBC exacerbated the adverse economic impacts of this price discrimination by pricing the Tier 2 rate significantly above the marginal cost of supply.
- e. Those facing unfair energy price discrimination under the RCR include:
- electric heat customers;
 - inhabitants of single detached homes (as opposed to apartments, condominiums or row houses);
 - large families;
 - customers with water pumps and outbuildings; and
 - residents in hot climate zones using air conditioning
- f. The adverse impacts are cumulative for residents that fit into several of these categories. Rural residents, in general, suffer the greatest impact because they are

¹⁴ AMCS-RDOS Response to BCUC IR., 1.7, Exhibit C3-9, citing 2008 BC Hydro RIB Application, BCUC Reasons for Decision, September 24, 2008, Section 3.2

¹⁵ AMCS-RDOS Response to BCUC IR, 1.7, Exhibit C3-9, citing 2008 BC Hydro RIB Application, BCUC Reasons for Decision, September 24, 2008, Section 4.2

more likely to rely on electricity for space and water heating due to having no access to natural gas

- g. AMCS-RDOS, using data supplied by FBC¹⁶, compared the electricity consumption of two identical households
 - i. one (an urban customer) that uses natural gas for space and water heating and
 - ii. one (a rural customer) that uses electricity for that end use.
- h. In this example, the rural customer consumes 3.5 times the amount of electricity as the urban customer, despite living in an identical residence.
- i. Under the RCR, the rural customer would pay an average electricity rate that is 38% higher than the average rate paid by the urban customer, simply because the former uses electricity for heating purposes while the latter uses natural gas.¹⁷
- j. The RCR unfairly discriminates by charging some customers higher rates than others, where there is no economic or environmental justification for the differential.
- k. FBC argues that:

“All customers are subject to the same pricing parameters, and all customers with the same level of consumption will be subject to the same rates and be billed the same amount. Pricing that changes with volume is not uncommon (both inclining block and declining block rates are common utility practice) and is not discriminatory”¹⁸

¹⁶ Response to AMCS-RDOS IR#1, 10.3, Exhibit B-10

¹⁷ AMCS-RDOS Evidence, C3-7, Table 6.2, p 41

¹⁸ Response to AMCS/RDOS IR#2, 10.2, Exhibit B-22

- l. The fact that “all customers with the same level of consumption will be subject to the same rates and be billed the same amount” does not mean that the rate system is fair and reasonable if different consumption levels attract different rates without any justification based on FBC’s cost of service.
- m. A rate must reflect a fair and reasonable charge for the service. See section 58(5) of the *Utilities Commission Act*, which states

- (5) In this section, a rate is "unjust" or "unreasonable" if the rate is
 - (a) more than a fair and reasonable charge for service of the nature and quality provided by the utility,
 - (b) insufficient to yield a fair and reasonable compensation for the service provided by the utility, or a fair and reasonable return on the appraised value of its property, or
 - (c) unjust and unreasonable for any other reason.

- n. FBC argues:

“the phase-in approach has no impact on the principle of avoidance of undue discrimination sincethe RCR rates have been found by the Commission not to be unduly discriminatory to begin with.”¹⁹

- o. However, the BCUC’s conclusion in the RIB Rate Report that the RIB rate was “not unjust, unreasonable, unduly discriminatory or unduly preferential” was based on a premise that has been proven incorrect:

“The RIB rates are conservation rates; that is, their purpose is to conserve energy or promote energy efficiency by providing a higher incentive, in the form of a higher rate for electricity purchased in the second tier, for higher-use customers to reduce consumption. Since it is not the purpose of the RIB rates to benefit any customers at the expense of other customers, this

¹⁹ FBC Response to AMCS-RDOS IR#1, 7.1, Exhibit B-10

supports the Commission’s view” (that there is no undue discrimination in the RIB rate).”²⁰

14. Other Bonbright Principles

- a. Phasing out the RCR immediately will also better satisfy the other Bonbright principles compared to phasing it out over five years.
- b. Returning immediately to the flat rate will enhance revenue stability (Principle 7) and the recovering of the cost of service (Principle 1). A flat rate is certainly easier to implement than the RCR (Principle 5).
- c. In the testimonials provided in AMCS-RDOS Evidence, Annex C, many of these residents express their concerns about the fairness of the RCR. They are likely to accept an immediate termination of the RCR and reject a prolonged phase-out which perpetuates an unjust and discriminatory rate. (Principle 4)

IV. BC ENERGY OBJECTIVES AND POLICY GOALS UNDERPINNING THE RCR ARE NOT BEING MET

15. The *Utilities Commission Act* adopts the British Columbia energy objectives from section 2 of the *Clean Energy Act*, which include the following objectives:

...

(b) to take demand-side measures and to conserve energy, ...

(g) to reduce BC greenhouse gas emissions ...

(h) to encourage the switching from one kind of energy source or use to another that decreases greenhouse gas emissions in British Columbia;

²⁰ AMCS-RDOS Evidence, C3-7, p 18, citing BCUC Report to the Government of BC on the Impact of BC Hydro and FortisBC’s RIB Rates, March 26, 2017, P 6

16. In its final argument, FBC states:

“Policy goals, not the cost of electricity, were the primary driver of the RCR”.²¹ ...

“policies, laws and regulations, as well as previous BCUC rate design- related decisions have been considered in drafting the Application and have informed the proposals it contains. These considerations ... include the Clean Energy Act, SBC 2010, Chapter 22 (the CEA) and the B.C. government’s 2016 Climate Leadership Plan (CLP). (The) BCUC specifically queried whether any rate design proposals included in the Application are in conflict with existing government policies, legislation and/or regulations. In FBC’s view, no such conflicts exist.”²²

17. In 2008, BC Hydro was very clear about the policy goal of implementing its RIB Rate:

“where the long-run cost of new electricity supply is substantially higher than the embedded cost of BC Hydro’s existing assets, (a RIB) rate structure sends price signals that will encourage economically efficient electricity consumption choices and, thus, electricity conservation”.²³

18. In other words, the policy goal was to realize the economically optimal level of electricity conservation – namely, the level of conservation that occurs when customers are engaged in economically efficient behaviour.

19. FBC has acknowledged that the RCR is not promoting economically efficient behaviour but claims that the RCR has a different policy goal.

“The rationale and objectives stated by BC Hydro in its RIB Rate Application reflect its particular circumstance and were not cited as the original intention of the

²¹ para 71, p 17

²² para 11, p 3

²³ AMCS-RDOS Evidence, C3-7, p 8, citing BC Hydro 2008 RIB Application, p 1-9

RIB rate for FBC ... The primary intent of FBC’s RIB rate is to incent customers to use less electricity”.²⁴

20. FBC provides no evidence to support its claim that there was a change in policy goals between the 2007 BC Hydro RIB application and the 2011 FBC RIB application. The record shows, however, that the true policy objective of FBC's RIB Rate continued to be to promote efficient consumption. The BCUC in its 2011 FBC RIB Rate Decision, stated:

“While an arbitrary increase in a rate may well encourage less consumption, it may not be an economically efficient reduction in consumption. ... An inclining block structure, which charges a lower rate for amounts consumed below a threshold and a higher rate above that threshold, can potentially be structured to be both economically efficient and meet the utility’s revenue requirements”²⁵

21. On August 25, 2016, The BC Ministry of Energy & Mines, in correspondence to an RDOS resident, with a copy to the BCUC, stated:

“BC Hydro’s RIB rates and FortisBC’s RCR 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”.²⁶

22. FBC maintains that the RCR has been successful at meeting its “conservation objective”.

“... the total rate-related conservation impact was assumed to be fully realized over 5 years, or by 2017 ... the conservation achieved to date is now embedded in the forecast residential load ...”²⁷

²⁴ FBC Response to AMCS/RDOS IR#2, 1.3, Exhibit B-22

²⁵ AMCS-RDOS Evidence, C3-7, p 11, citing BCUC Decision, FBC RIB Rate, January 13, 2012, p 21

²⁶ AMCS-RDOS Evidence (C3-7), Appendix B

²⁷ FBC 2017 Application, p 72

“The Company has demonstrated in the past that the RCR has resulted in conservation ... conservation measures characterized as “low hanging fruit” have been taken.”²⁸

“... low hanging fruit” (are) the obvious or easy things that can be most readily done or dealt with in achieving success or making progress toward an objective. In the context of conservation measures, examples are changing the thermostat settings in a residence and changing to energy efficient lighting ...”²⁹

23. FBC’s characterization of the RCR's performance, however, is not credible. First, more than 50% of FBC's customers have not been encouraged by the RCR to undertake any conservation measures but rather have been incited to consume more electricity. Second, high use customers have been incited, by being charged 15.6 cents/kWh on the majority of their consumption, to take actions far more drastic than changing light bulbs.

24. FBC's 2013 Evaluation Report found that:

“While it may be desirable for the RCR rate to promote the efficient use of energy, in the short term it may be coming at the expense of customers’ comfort levels in their homes” and “the higher bills may eventually lead to a shift away from electric heat.”³⁰

25. The testimonials from residents in the AMCS-RDOS region show the extent to which some customers have sacrificed comfort levels and lifestyle in response to the RCR:

“Because of the outrageous heating bills in the winter, we have decided to completely shut OFF our furnace heat for the past 2 winters and only run portable

²⁸ FBC Final Argument, para 70, p 16

²⁹ FBC Response to AMCS-RDOS IR#2, 5.1, Exhibit B-22

³⁰ AMCS-RDOS Evidence, C3-7, p 14, citing FBC 2013 RCR Information Report, Appendix C, Conservation Results Methodology, p 23-24

heaters wherever we sit and that's under the blanket. Our beds have heating blankets for warmth. We walk around in jackets and sometimes even mitts when sitting".³¹

"We have had to "tarp" off doorways/hallways to conserve heat & live only in the back bedroom/bathroom with an energy efficient infra-red space heater, since we can't afford to heat the whole house. No one can visit; it's too cold in the rest of the house."³²

"All winter long I live in one room of my house and I never have visitors or company because my house is just too cold. Watching TV I lay on the chesterfield wrapped in an electric blanket with my hat and scarf on just to keep warm."³³

26. Other customers have shifted away from electric heat, as predicted in FBC's 2013 Evaluation Report:

"In the coldest part of winter, our Fortis bills were well over \$600 per month, and we never set our thermostat above 18 degrees C during the day and 16 degrees at night. We also closed off the registers to any rooms that we could. We all wore layers and layers of clothing to try to keep warm and not have to turn up our heat. When a bill came that was over \$1700 for two months we finally put in a wood stove."³⁴

"Over the years of high cost of electricity during the winter months, we have learned how to overcome this expense. We now use wood to heat our home, our fire place is going 24/7 from November to March"³⁵

³¹ AMCS-RDOS Evidence, C3-7, Appendix C, Resident #104

³² AMCS-RDOS Evidence, C3-7, Appendix C, Resident #12

³³ AMCS-RDOS Evidence, C3-7, Appendix C, Resident #17

³⁴ AMCS-RDOS Evidence, C3-7, Appendix C, Resident #115

³⁵ AMCS- RDOS Evidence, C3-7, Appendix C, Resident #194

27. FBC, in reporting on its success at achieving its “conservation objective”, has included reductions in demand resulting from “doing without” behavioural change and switching to fossil fuels.

“... the RCR was not designed to target any particular conservation behaviour over another but rather to generally incent customers to reduce consumption by whatever measure was applicable to their circumstances ...”³⁶

“It is reasonable to assume that customers have responded to the price signal included in the RCR at least to some extent through each of the three response types (improving energy efficiency, “doing without” behavioural change, switching to non-electric sources of energy). FBC cannot however provide any quantitative assessment of the degree to which each response has contributed to the reduction in energy use attributable to the implementation of the RCR”.³⁷

28. Thus, FBC's “conservation objective” is to reduce consumption by “whatever measure” is applicable. Such a “conservation objective”, however, is inconsistent with government policy objectives, as noted by FBC:

“FBC also notes that burning wood for heating purposes instead of using electricity does not necessarily indicate “conservation efforts” (it indicates a shift from one energy source to another which may or may not be coupled with conservation efforts) and is not aligned with government policy for increased electrification.”³⁸

29. The lack of alignment of FBC's “conservation objective” with the policy objectives of the government has been noted by the BC Green Party Leader, Andrew Weaver, who issued the following statement on November 1, 2017:

“Electricity (produced from renewable sources) is the cleanest form of heating. We should be encouraging (not discouraging) its use. The idea that multi-tier pricing

³⁶ FBC Response to AMCS-RDOS, IR#2, 4.1, Exhibit B-22

³⁷ FBC Response to AMCS- RDOS IR#2, 4.2, Exhibit B-22

³⁸ FBC Response to KSCA IR#1, 8.6.1, Exhibit, B-17

enhances conservation and efficiency, while theoretically correct, has obvious detrimental consequences. It inadvertently incentivizes fossil fuel use for heating and hot water. It also doesn't differentiate between large and small homes, the number of people in a particular dwelling or if you drive an electric vehicle. For many, it is simply impossible to stay within Tier 1 year around..... I look forward to seeing the elimination of the two-tier system.”³⁹

30. The RCR is encouraging customers to use natural gas, propane or heating oil instead of electricity and that is clearly contrary to the *Clean Energy Act* and the BC Government's policy to reduce greenhouse gas emissions. Encouraging customers to switch to wood is also contrary to the Central Okanagan Clean Air Strategy that aims to “reduce and/or eliminate smoke emissions from home fireplaces and wood stoves”.⁴⁰

31. Making customers sacrifice comfort and personal welfare is also contrary to government policy. The only time governments support such actions is in response to impending supply shortages. However, FBC has stated:

“in the short term FBC does not have the need for new resources and has sufficient capacity to meet load growth for several years”.⁴¹

32. In the end, the RCR has not only failed to promote efficient consumption, but it has caused changes in energy consumption behaviour that are contrary to the British Columbia energy objectives related to reducing greenhouse gas emissions.

33. FBC has acknowledged this outcome:

“FBC has not claimed any economic or environmental benefits from the implementation of the RCR, or its current structure”.⁴²

³⁹ AMCS-RDOS Evidence, C3-7, Appendix B

⁴⁰ AMCS-RDOS Evidence, C3-7, p 23

⁴¹ FBC Response to BCUC IR#1, 79.1.4, Exhibit C3-9

⁴² Response to AMCS- RDOS IR#2, 3.6, Exhibit B-22

V. RE-DESIGNING THE RCR WOULD BE UNPRODUCTIVE

34. The core rationale for RIB Rates is to incent more economically efficient behaviour where the marginal cost of supply is above the flat rate and hence the flat rate can be assumed to be encouraging less than efficient consumption. According to FBC, its marginal cost of new supply (9.9 cents per kWh) is far below its proposed flat rate (12.02 cents/kWh). Thus, the design of FBC's RIB Rate cannot be corrected because the pre-condition for such a system to be effective does not exist.
35. Since the flat rate is above the marginal cost of supply, the former is the right price for encouraging optimal electricity consumption. Under a flat rate, all customers pay a cost-based rate, so all customers will be provided with the correct price signal. As BC Hydro stated in 2008, the flat rate performs well against the seven other rate design principles.
36. The BCSEA-Sierra Club has questioned FBC's estimate of its long-run marginal cost of supply. AMCS-RDOS has no view as to whether or not BCSEA-Sierra Club's estimated value is more accurate than FBC's. However, even if the BCUC were to determine that FBC's marginal cost of supply is, in fact, higher than its flat rate, AMCS-RDOS does not support continuing with a RIB Rate, in any form.
37. If the marginal cost of supply is greater than the flat rate, then, in theory, a correctly designed RIB Rate (with the correct Tier 1 rate, correct Tier 2 rate and correct Thresholds) could result in better price signals than a flat rate. However, the complexity of designing multiple thresholds, the associated administrative costs and the risk of making design mistakes suggest that even such a RIB Rate should only be implemented in those circumstances where the potential benefits clearly exceed the potential costs.
38. In a hydro-based system, such as FBC's, raising electricity rates to encourage greater efficiency will also encourage customers that use electricity for heating to switch to fossil fuels, thereby increasing greenhouse gas emissions and air pollution. The flat rate would more effectively meet British Columbia energy objectives than a RIB Rate even if the marginal cost of supply were greater than the flat rate.

VI. FBC’S FIVE-YEAR PHASE-OUT FOR THE RCR

Impact on Residential Customers

39. In its final argument, FBC states:

“The potential impact to residential customers from a single year implementation is shown in the response to BCUC IR 1.46.1. This shows that 55 percent of customers across the entire consumption spectrum would have bill increases greater than 10 percent in the single year, while lower consumption customers with usage between 0 to 5,000 kWh/annum, and 0 to 10,000 kWh/annum (totalling 58 percent of customers) would have average bill increases of 14 percent and 16 percent respectively”.⁴³

40. The bill increases referred to by FBC are for the situation where on January 1, 2019, the RCR is replaced by a flat rate and the Customer Charge is increased from \$16.05 to \$18.70 per month. However, neither FBC nor any intervener has proposed increasing the Customer Charge by that amount in Year 1 and some interveners have expressed concerns about it being increased at all. The Table below shows the changes in bills that would occur if the RCR were replaced by the flat rate on January 1st while the Customer Charge remained unchanged.

Table 3
Bill Impact of Moving from RCR to Flat Rate
With no Change in Customer Charge

Annual kWh	Percent of Customers	Average % Bill Change	Average \$ Bill Change
Above 35,000	2%	- 17%	-\$1,494
30,000-35,000	1%	- 13%	-\$ 631
25,000-30,000	2%	- 12%	-\$ 451
20,000-25,000	5%	- 9%	-\$ 273
15,000-20,000	10%	- 4%	-\$ 98

⁴³ FBC Final Argument, para 73, p. 17

10,000-15,000	22%	+ 4%	+\$ 64
5,000-10,000	37%	+12%	+\$ 118
0-5,000	21%	+11%	+\$ 55

Source: Table 6-8, FBC 2017 Rate Application, p 70.

41. If there is a change to the flat rate on January 1st with no increase in the Customer Charge, customers with usage between 5,000 and 10,000 kWh per year and those with usage between 0 and 5,000 kWh per year would have average bill increases of 12% and 11% respectively instead of 14% and 16%.

42. FBC states in Final Argument:

“while the average annual bill impacts associated with shorter phase-in periods may be reduced to below 10 percent, consecutive increases slightly below 10 percent may still constitute rate shock and ought to be avoided”.⁴⁴

43. However, if the Customer Charge were not also increased on January 1, 2019, the shift to the flat rate would only result in average bill increases that are slightly above 10% in total.

44. There is far greater urgency to terminating the RCR than to raising the Customer Charge. First, there appears to be some uncertainty as to the appropriate level of the Customer Charge. Second, even if FBC's assessment of the appropriate level of the Customer Charge is correct, the cross-subsidization resulting from a Customer Charge that is \$2.65 per month too low is minor and, as a result, so are the adverse impacts.

45. FBC states:

FBC does not agree with the AMCS RDOS assertion that, “... the rate increases experienced by customers that are a direct result of the elimination of the RCR are not “adverse” and do not constitute “rate shock.” Customer impact needs to be

⁴⁴ FBC Final Argument, para 74, p. 18

assessed based on current versus proposed rates, not rates that have not existed for 6 years. (FBC Final Argument, para 76, p 18)

46. FBC has not provided any evidence to support its argument that low use customers will experience hardship as a result of an immediate transition to the flat rate. FBC's standard for determining hardship is an annual rate increase greater than 10%. However, in assessing the impact on customers that have widely varying levels of consumption, percent changes are a highly misleading indicator. A 10% increase in the bill of a customer whose annual electricity bill is \$4,000 is \$400 while a 10% increase in the bill of a customer whose annual electricity bill is \$500 is only \$50. It is faulty logic to maintain that both customers experience the same degree of hardship as a result of a 10% rate increase. In addition, percent changes are misleading when comparing customers whose rates will go up with customers whose rates will go down. The percentage increase going from 10 cents/kWh to 15 cents/kWh is 50%; whereas the percentage decrease going from 15 cents/kWh to 10 cents/kWh is 33%.
47. FBC also keeps changing its view as to what constitutes an unacceptable rate increase. In 2011, for the 5% greatest electricity consumers, FBC proposed a maximum annual percentage bill impact of 22.25% (rather than 10%), with a maximum total annual dollar bill impact of \$2218.⁴⁵
48. In the current rate Application, for the 80% of customers that are “low use”, FBC proposes a maximum annual percentage bill impact of 3.5%, with a maximum total annual dollar bill impact of \$42.⁴⁶
49. AMCS-RDOS is not, as claimed by FBC, assessing customer impact based on “rates that have not existed for 6 years”. FBC is ignoring the fact that under the RCR, customers are currently paying different rates. The rates of low use customers are below their cost of

⁴⁵ AMCS-RDOS Evidence, C3-7, p 44

⁴⁶ FBC 2017 Application, p 73

service while the rates of high use customers are above their cost of service. In Table 3, the dollar amounts represent how much customers are paying below or above cost.

50. The average customer consuming 0 to 5,000 kWh per year is paying \$55 per year below cost, while the average customer consuming 30,000 to 35,000 kWh per year is paying \$631 per year above cost. The latter customer is paying considerably more above cost than the former is receiving in subsidies because, under the RCR, 20% of customers are subsidizing the remaining 80%. To put this situation in perspective, the amount that the average customer consuming 30,000 to 35,000 kWh per year is paying above cost is greater than the total electricity bill of the customer consuming 5,000 kWh per year (which at 10.01 cents/kWh is approximately \$500).

51. FBC has acknowledged that most customers received rate reductions as a direct result of the 2011 Rate Decision:

“The introduction of the RCR resulted in annual bill decreases for a large majority of customers”⁴⁷

52. FBC determined that the reductions and increases in customers' bills resulting from the RCR were not related to the taking of actions to improve efficiency:

“A portion of customers have the benefit of a relative bill reduction without having made any effort towards conservation behaviour.”⁴⁸

“A portion of customers have experienced significant bill increases due to their use of electric heat”.⁴⁹

53. FBC has acknowledged that the RCR has resulted in high-use customers cross-subsidizing low use customers:

⁴⁷ FBC Response to BCUC, IR#1, 35.2, Exhibit B-10

⁴⁸ AMCS-RDOS Evidence, C3-7, p 14, citing FBC 2013 RIB Evaluation Report, p 31

⁴⁹ AMCS-RDOS Evidence, C3-7, p 14, citing FBC 2013 RIB Evaluation Report, p 31

“... the general expectation would be that low use customers are in general and to some degree being subsidized by high use customers ...”⁵⁰

“... a customer with high use would be paying more than its cost of service and a customer with low use would be paying less than its cost of service”.⁵¹

54. AMCS-RCOS, using data provided by FBC, estimated that high use electricity customers (i.e. those consuming more than 15,000 kWh per year) have cross-subsidized low use customers by \$30-40 million since the introduction of the RCR in 2012. FBC has not challenged this estimate. For 2018, AMCS-RDOS estimated that high use electricity customers will cross-subsidize low use customers by \$6.6 million. FBC has confirmed that this estimate is low:

“The figures in the table are based on a sample of 2016 consumption at 2018 rates, and do not account for 100 percent of current customers. ... considering all load and customers would result in a higher value”⁵²

55. In arguing that low use electricity customers will experience rate shock in the event of an immediate return to a flat rate, FBC ignores the fact that most of these customers are free riders who have benefited from millions of dollars in cross-subsidies due to the RCR’s flawed design.

56. Moreover, some of the customers who will experience a “rate increase” and who are not free riders will actually benefit from the immediate elimination of the RCR. Customers who have reduced their consumption below the break-even point of 15,000 kWh by sacrificing personal comfort, giving up desired electricity-using activities or devoting considerable personal time and effort to chopping wood to burn in their fireplaces would benefit from being able to resume their pre-RCR lifestyle without having to pay unaffordable rates that are above cost.

⁵⁰ FBC response to AMCS/RDOS IR#1, 10.3, Exhibit B-10

⁵¹ FBC Response to AMCS-RDOS IR#1, 10.2, Exhibit B-10

⁵² FBC Response to AMCS-RDOS IR#2, 9.6, Exhibit B-22

Impact on Low-Income Residential Customers

57. FBC maintains that returning to the flat rate in 2019 will mean financial hardships for low-income customers:

“Changing the default rate to a flat rate over the course of a single year will generally result in significant adverse annual bill impacts for lower than average consumption customers Since FBC has no data that indicates that low-income customers have consumption that varies from customers in general, it follows that similar bill impacts will occur within the low income groups as well.⁵³

58. The appropriate hardship test for low income groups, however, is the size of their energy bills relative to their income.⁵⁴

59. It is not likely that low income residents, that are high use customers, live in large houses with hot tubs and an abundance of appliances. The most likely reason some low income residents are high electricity users is because they use electricity for space and water heating. Similarly, it is likely that low income residents that are low use customers use non-electric energy sources, such as natural gas, propane or wood, for space and water heating.

60. FBC calculates that, for the Southern Interior, the annual cost of space heating with natural gas (\$540) is about 78% less than the annual cost of heating with electricity (\$2480). A low-income resident that uses electricity for space and water heating will therefore have a total energy bill that is more than double that of a low-income resident that uses natural gas for space and water heating.⁵⁵

61. Clearly, it is the electric heat customer who is most likely not to be able to afford to heat his/her home adequately. Yet, it is the electric heat customer that has experienced major bill hikes under the RCR, is now paying rates that are significantly above cost and is cross-

⁵³ FBC 2017 Rate Application, p 70

⁵⁴ AMCS-RDOS Response to FBC IR#1, 7.1, Exhibit C3-10

⁵⁵ FBC Response to AMCS-RDOS IR#1, 4.1, Exhibit B-10

subsidizing the rates of other customers. The RCR has been further exacerbating energy poverty in BC and will continue to do so until it is terminated.

62. The testimonials offer some sense of what some low-income residents are experiencing under the RCR:

“I live rurally and rent. My job, landscaping, had a seasonal delay for a month and circumstances were difficult financially on every front. I have implemented all avenues of energy conservation a renter can. It truly comes down to a choice between running my car or paying the Fortis bill.”⁵⁶

“Because my husband is a contract worker who was working very little in the spring and early summer, we were unable to pay either our electricity bill or our mortgage and have since defaulted on our mortgage. Fortis cut our power off in August. We were without water or power for 8 days before a generous family member paid our bill. Then, Fortis, once we contacted them to say the bill had been paid, reconnected us; however not without charging us a further \$2,380 as "insurance", a deposit as it says in our most current bill, in case this happens again”.⁵⁷

“Affording to live in winter is impossible when my electric charges skyrocket and I already spend 65% of my income on rent.”⁵⁸

“Currently, I work three jobs just to make ends meet. After a meeting with my kids, it has been agreed that as I drive my kids to work, they in turn will commit 15 percent of their paycheck towards our Fortis bill. My boys are 14 and 16. It's October 2017 and I just recently paid off last year's winter bill, the highest being over \$1300 for 60 days. It's October 28th and I still haven't turned on my heat”⁵⁹

⁵⁶ AMCS-RDOS Evidence, C3-7, Appendix C, Resident #34

⁵⁷ AMCS-RDOS Evidence, C3-7, Appendix C, Resident #2

⁵⁸ AMCS-RDOS Evidence, C3-7, Appendix C, Resident #129

⁵⁹ AMCS-RDOS Evidence, C3-7, Appendix C, Resident #150

“Either we eat, pay rent or pay power bill. There is no in between”.⁶⁰

“We are a single income family and often are forced to neglect our Fortis bill just to pay rent. Usually we receive up to two disconnection notices a year because of the overdue bill. When this happens we are forced to borrow money from my wife’s parents or my parents which we have never been able to repay. Without them I don’t know what we would have done”.⁶¹

63. The removal of the RCR will clearly alleviate the financial pressure being placed on low income customers that use electricity for space and water heating but it needs to be done as soon as possible. The RCR places enormous financial hardships on such low income customers in winter and the winter of 2018/19 will be no exception unless the RCR is completely eliminated.

Impact on Rural Residential Customers

64. AMCS-RDOS’ residents are rural, and AMCS-RDOS have heard many concerns from them since the introduction of the RIB rate system in 2012. While not all rural residents are high-use electricity customers, those that use electricity, rather than wood or propane, for space and water heating generally have a significant portion of their consumption in the second Tier and have been adversely impacted by the RCR.

65. Following the introduction of the RCR in 2012, rural high use customers' rates have increased by 46%. Urban low use customers' rates, on the other hand, have increased only 6% from the 2012 level. High-use rural customers have experienced rate increases of nearly 100% since 2008.⁶²

⁶⁰ AMCS-RDOS Evidence, C3-7, Appendix C, Resident #161

⁶¹ AMCS-RDOS Evidence, C3-7, Appendix C, Resident #132

⁶² AMCS-RDOS Evidence, C3-7, Tables 7.1 and 7.2, p 47

66. The introduction of the RCR in 2012, in effect, shifted subsequent rate increases, almost in full, onto the backs of rural communities, who were already struggling with high energy bills because of the lack of access to less expensive natural gas.

Favouring the Majority over the Minority

67. FBC states:

“The customers that are the focus of the AMCS RDOS intervention, high-consumption customers, will receive an increasing benefit with each year of the phase-in period.”⁶³

68. AMCS-RDOS is not “focusing” its intervention on high-consumption customers. There are many “low-consumption customers” (who use wood or propane for heating purposes) in their region. AMCS-RDOS is focusing its intervention on advancing the best interests of both low and high use customers by seeking a rate system that is non-discriminatory and treats all residents fairly. Since the RCR is unduly discriminating against high-use customers (overcharging rural residents using electricity for space and heating), many of AMCS-RDOS' concerns pertain to this latter group.

69. FBC's Application favours one group of customers over another, rather than seeking a solution that achieves fair rates for all. FBC has stated many times, in terms of rate design, that the majority should be favoured over the minority.

“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” (Mr. Corey Sinclair, FBC's Manager of Regulatory Affairs, statement to the Osoyoos Times, May 22, 2013)

“95 percent of customers should have bill increases no greater than 10 percent”⁶⁴

⁶³ FBC Final Argument, para 76, p 18

⁶⁴ FBC 2017 Rate Application, p 60

“FBC believes that any rate design proposal should be implemented in a way that avoids rate shock to the majority of customers”⁶⁵

“FBC is proposing to phase-in the flat rate solely for the purpose of mitigating against the potential annual bill increases for a large majority of customers”.⁶⁶

“... it may or may not be appropriate to characterize a situation where a small percentage of customers have an annual bill increase of more than 10 percent as rate shock”⁶⁷

70. FBC agrees that:

“... the phase out of the RCR will continue the current effect of the RCR that sees higher use customers and lower use customers have offsetting aggregate bill impacts”⁶⁸

71. In other words, high-use customers will continue to cross-subsidize low-use customers even though FBC has not demonstrated any principled rate-making justification to support this intra-class economic transfer. If the current level of cross-subsidization, about \$7 million per year, were maintained over the next four years, high-use customers would be charged \$28 million above their cost of service.

72. FBC is not proposing to eliminate the overcharging of high-use customers but just to overcharge them less – \$14 million instead of \$28 million. For a customer whose annual consumption is between 30,000 and 35,000 kWh, FBC's proposed phase-out means that customer will still be overcharged by about \$1,500. According to FBC, continuing to charge high use customers rates above cost is a “benefit” to them because they are being penalized to a lesser degree.

⁶⁵ FBC Response to BCUC IR#1, 47.3, Exhibit B-8

⁶⁶ FBC Final Argument, para 72, p 17

⁶⁷ FBC Response to BCUC IR#1, 47.3, Exhibit B-8

⁶⁸ Response to AMCS-RDOS IR#2, 9.9, Exhibit B-22

73. FBC maintains that having a phase-out rather than immediate elimination of the RCR is:

“... a sound and responsible policy to balance the interests of all residential customers, including high use and low use customers”.⁶⁹

74. In reality, FBC's proposal is to maintain an unbalanced rate system until 2023 that continues to favour the urban majority at the expense of the rural minority.

Consequences of FBC's Proposed Phase-out

75. AMCS-RDOS presented expert evidence that showed that, during FBC's phase-out period, the RCR will:

- i. promote inefficient electricity consumption;
- ii. encourage further switching from hydroelectricity to the burning of fossil fuels, adversely affecting the environment;
- iii. unduly price discriminate against high-use electricity customers; particularly against those that use electricity rather than fossil fuels for space and water heating; and
- iv. overcharge high use electricity customers by, at least, a further \$14 million to cross-subsidize low use customers by the same amount.

76. An immediate return to a cost-based flat rate system inevitably means an increase in bills for low use customers. But the following facts need to be recognized:

- i. they received significant reductions in their rates and bills in 2012 without having to undertake any efficiency measures;

⁶⁹ FBC Response to BCUC IR#1, 47.3, Exhibit B-8

- ii. they've been paying rates below cost for the last 6½ years due to the \$30-\$40 million in subsidies transferred to them from high use electricity customers;
- iii. in many cases, electricity is a small portion of their total energy bills because they use non-electric sources of energy, such as natural gas, for space and water heating needs – so a 12% increase in their electricity rates might only mean a 6% increase in their total energy bill;
- iv. since they are low use electricity customers, the absolute dollar value of bill increases will be relatively low – for customers consuming between 0 and 5000 kWh per year, an immediate return to the flat rate will mean, on average, a bill increase of only \$55 or \$4.60 per month;
- v. they can reduce the impact of bill increases by increasing their energy efficiency, something they have not been incented to do since 2012; and
- vi. since appliance use accounts for a significant portion of their total electricity use, they should be able to reduce the impact of bill increases by electing to be charged TOU rates.

Insights from Customer Testimonials

77. FBC states:

“FBC is concerned the AMCS RDOS has only sought input from constituents that may be adversely impacted by the current RCR without providing a similar opportunity for other customers to comment, and has no means of confirming the information contained in the testimonials submitted. The testimonials should carry little, if any, weight with the BCUC.”⁷⁰

78. In Annex C to its Evidence, AMCS-RDOS submitted nearly 200 testimonials from its residents that were gathered mainly in the fall of 2017. The purpose of the testimonials was

⁷⁰ FBC Final Argument, para 75, p 18

not to determine how many customers are adversely affected by the RCR. FBC has presented information on that and AMCS-RDOS acknowledges, and in fact has stressed the point, that the number of customers who are “benefiting” from the RCR is far greater than the number who are adversely affected.

79. The purpose of gathering the testimonials was to help the BCUC better understand how individual residents have been responding to the RCR in terms of behavioural changes. FBC has presented little information on this in its Application. Surveying customers that have lower bills due to the RCR would have provided limited information concerning the way customers have responded to the RCR. Most of these customers do not even know that the RCR exists. FBC found in its 2013 RCR Information Report that 71% of customers (the same percentage that experienced bill reductions) were “not aware” of the RCR.⁷¹
80. AMCS-RDOS did not have the resources to interview everybody who provided their testimonials to verify they had indeed responded to the RCR in the fashion described in their letters. However, the contents of the testimonials are very similar to those in the 700 letters of comment provided to the BCUC in the RIB Rate Report proceedings. And in some cases, the testimonials were simply copies of complaint letters that the residents had previously sent to the BCUC.
81. Moreover, the testimonials constitute far more robust evidence than that provided by FBC to support its claim that customers have been responding to the RCR by taking “low hanging fruit” efficiency measures. FBC's claim is based on “the comments of at least some residential customers” – comments FBC has declined to submit to these proceedings.⁷²
82. The testimonials of AMCS-RDOS residents reveal that many customers have reduced their consumption by taking non-energy efficiency enhancing measures to the detriment of their own personal welfare and to the environment. Some of these customers have been deemed

⁷¹ AMCS-RDOS Evidence, C3-7, p 13, citing RCR Information Report, October 31, 2013, p 26

⁷² FBC Response to AMCS-RDOS IR#2, 5.2, Exhibit B-22

by FBC to be better off “financially” under the RCR than the flat rate when in fact they are worse off from a total welfare point of view. The negative impact on high-use electricity customers is therefore much greater than what would be determined by solely looking at bill impacts, meaning that FBC’s Application overstates the “adverse” impacts on customers of an immediate return to a flat rate. The testimonials also illustrate the personal hardships that the RCR is imposing on some residents who use electricity for space and water heating.

Fair and Reasonable Rates that are not unduly Discriminatory

83. FBC maintains that in designing the residential rate system, there is a need to trade-off some principles against others.

“Rate design is a complex balancing process, as it frequently requires the application of multiple, and sometimes conflicting, principles”⁷³

84. FBC states:

“A detailed discussion of the trade-offs that necessarily occur with the design of utility rates can be found in the response to BCUC IR 1.3.3, which begins with a discussion of the Company’s residential rate proposal summarized by noting that, “...inclining block rate structures may provide better price signals for energy conservation for some segments of residential customers, but provide less desirable results in terms of other rate design considerations such as customer awareness and understanding, cost causation or rate and revenue stability.”⁷⁴

85. FBC is incorrect, however, in arguing that inclining block structures require any such trade-off. BC Hydro argued in its 2008 Rate Application that the flat rate met seven of the eight

⁷³ FBC 2017 Rate Application, p 16

⁷⁴ FBC Final Argument, para 18, p 4-5

design principles and that, in the circumstances where LRMC is above the flat rate, the implementation of a RIB Rate would satisfy all eight principles.⁷⁵

86. FBC is wrong in its argument about the need to trade-off principles and policy objectives. The BCUC could implement a residential rate system on January 1, 2019 – a cost-based flat rate – that meets all eight principles as well as the Government's policy objectives.

87. FBC states:

“Explicit prioritization of rate design principles may lead to favouring the interests of a certain customer group to the detriment of another customer group’s interests, without due consideration of the specific circumstances”.⁷⁶

“FBC’s proposal to phase-in the proposed rate changes mainly relates to the rate design principle number six (rate stability)”⁷⁷

88. FBC has clearly prioritized Principle 6 (rate stability) at the expense of the other Principles to justify the five-year phase out. However, an immediate return to the flat rate would actually result in greater rate stability than a phase-out of the RCR, while satisfying the other Principles plus the British Columbia energy objectives.

89. In its Reasons for Decision, in the 2011 FBC RIB Rate Proceedings, the BCUC made the following observation:

“a RIB rate structure that is incorrectly priced can have disadvantages and unintended consequences, the principal among them being that customers overuse underpriced resources and underuse overpriced resources. The choices made are suboptimal and the consequence is lower productivity and/or lower conservation. A rate structure based on sound rate-making principles can ensure that what

⁷⁵ AMCS-RDOS Response to BCUC IR, 1.2, Exhibit C3-9, citing BC Hydro, Final Argument, July 9, 2008, p 9

⁷⁶ FBC Response to BCUC IR#1, 2.2, Exhibit B-8

⁷⁷ FBC Response to AMCS-RDOS IR#1, 7.1, Exhibit B-10

consumers pay will reflect the true economic value of the energy they buy, and that energy resources find their best possible uses”.⁷⁸

90. The record demonstrates that FBC’s RIB rate structure was incorrectly priced resulting in arbitrary, non-cost based, rate increases for high use customers and that this incorrect pricing has had major disadvantages and unintended consequences, including punitive rate increases for rural customers that depend on electricity for space and water heating.

91. As stated in FBC's Application:

“Section 59 of the UCA addresses the issue of rate discrimination. It states that a public utility must not make, demand or receive “an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service provided by it.” Section 59 of the UCA also provides that a rate is “unjust” or “unreasonable” if the rate is: (a) more than a fair and reasonable charge for service of the nature and quality provided by the utility.⁷⁹

92. The record demonstrates that the RCR is charging high use electricity customers rates that are “more than a fair and reasonable charge for service” and will continue to do so until it is phased out.

93. FBC states:

“FBC does not suggest that seeking a particular set of bill impacts is the goal of rate design”⁸⁰

94. The only analysis FBC offers in its Application is to support the “particular set of bill impacts” that FBC is proposing; namely a rate system that continues to subsidize, for

⁷⁸ AMCS-RDOS Evidence, C3-7, p 11, citing BCUC Decision, FBC RIB Rate, January 13, 2012, p 21

⁷⁹ FBC 2017 Rate Application, p 15

⁸⁰ FBC 2017 Rate Application, p 61

another four years, the rates of the majority at the expense of the minority. And, this analysis is misleading.

95. AMCS-RDOS represents both low use electricity customers and high use electricity customers and do not favour one set of customers at the expense of another. AMCS-RDOS is proposing the immediate termination of the RCR and return to a flat rate. Only then will all residents – low-use and high-use, urban and rural – be paying fair and non-discriminatory rates that reflect the true economic value of the electricity they buy.

VII. IMPLEMENTING OPTIONAL TIME-OF-USE RATES

96. On the implementation of a new Optional Time-of-Use Rate system, FBC states, in Final Argument:

“FBC is proposing a three-year evaluation period after which it will deliver a recommendation to the BCUC regarding the TOU rate program. FBC would also be amenable to an annual reporting requirement”.

“Part of the analysis that would inform the recommendation that FBC intends to provide to the BCUC would be an assessment of the changes in customer behaviour that the TOU rates have prompted and whether or not any adjustments would be required to make the rate as effective as possible in shifting load and creating a benefit for ratepayers”.⁸¹

97. The objective of TOU Rates is different than the objective of RIB rates. TOU rates aim to encourage customers to shift their consumption from peak to off-peak hours to improve generation and distribution efficiency.

98. AMCS-RDOS supports FBC's proposal to re-open its TOU system to customers on a voluntary basis. AMCS-RDOS does not support the introduction of a mandatory TOU system which it believes would unfairly penalize customers using electricity for space and

⁸¹ FBC Final Argument, para 120-121, p 29

water heating. Not all customers can shift a significant portion of their electricity consumption from peak to off-peak hours. It is relatively easy to run the dishwasher at night or run the clothes washer and dryer on the weekend but it is not feasible to run the furnace or air conditioner during different hours. Customers using electricity for space and water heating might be able to shift some consumption to off-peak periods but if the majority of consumption is still during peak periods, they would experience an increase in rates under a TOU system despite taking actions that reduced the cost of generating and distributing electricity.

99. Customers who elect to be charged TOU rates will expect to pay an average rate that is below the default rate and would likely opt out of this rate system if that proves not to be the case. Reducing peak electricity requirements reduces the cost of supplying the electricity to customers, so there is nothing wrong with TOU customers paying an average rate that is lower than the default rate, providing the rate differential does not exceed the amount of the cost savings resulting from the load shifting. If the rate differential exceeds the amount of the resulting savings, then this would constitute a cross-subsidy from customers paying the default rate to those paying TOU rates.
100. FBC provides a table with the estimated revenue deficiency, by rate-class, that could result if customers that would see a bill decrease under the proposed optional TOU rates opt in to the program and do not change their consumption.⁸²
101. For the residential class, the estimated revenue deficiency ranges from a high of \$9,379,657 (as compared to the current residential rate) to a low of \$729,433 (as compared to the proposed Year 5 flat rate). This suggests that considerably cross-subsidization could occur under FBC's proposed TOU rates, particularly during FBC's proposed transition period, with TOU customers being subsidized by those customers who remain under the default rate. AMCS-RDOS' proposal to move immediately to a flat rate system would go a long

⁸² FBC Response to BCUC IR#1, 137.5.1, Exhibit B-8

way to addressing this problem, given the much lower anticipated revenue deficiency under a default flat rate system compared to the RCR rate.

102. FBC's proposed "assessment of the changes in customer behaviour that the TOU rates have prompted" would provide meaningless results if the default rate is changing significantly year-to-year, as would be the case under FBC's proposed transition period. For this reason, and to minimize the cross-subsidization associated with the proposed TOU rates, it is the view of AMCS-RDOS that FBC's proposed TOU system should not be implemented until there has been a complete return to a default flat rate.

103. AMCS-RDOS also proposes that the TOU system, once implemented, be closely monitored by the BCUC to ensure that minimal cross-subsidization of customers occurs.

VIII. CONCLUSION

104. In the end, the record before the Commission demonstrates beyond question that the RCR must end in favour of a flat rate. Delaying that change will only perpetuate the unfair rate discrimination and economic hardship that high-use energy customers have endured since the RCR was introduced.

105. FBC has not presented any analysis of rate-making principles or compelling evidence to support the extraordinary measure of phasing out the RCR over five years. The phase-out period is arbitrary and not based on any cogent theory of fairness related to the impact of the rates on the entire rate class and the corresponding cost of service, nor any fundamental rate-making principles that align with the imperatives in section 58 of the *Utilities Commission Act*.

106. Further, any concern about the rate impact resulting from an immediate return to the flat rate must be considered in the context of what are fair rates for all and what are the overall economic impacts on customers who are forced by the circumstances of their energy options to continue to pay a Tier 2 rate that does not relate to FBC's cost of serving that customer.

107. Moreover, FBC may mitigate any near-term rate impact associated with the immediate change from RCR to flat rate by delaying the increase in the Customer Charge.

All of which is respectfully submitted on 7 November 2018 on behalf of AMCS and RDOS by its counsel.

David Bursey

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