Box 484, Kaslo
British Columbia, V0G 1M0

Phone: (250)353-7350
E–Mail: ashadra@telus.net

November 27, 2018

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Box 250, Vancouver, B.C.
V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Kaslo Senior Citizens' Association of British Columbia, Branch #81 Reply Submission
FortisBC Inc 2017 Cost of Service Analysis and Rate Design Application

KSCA#81 would first like to thank the Commission for allowing further deliberation after closing of the evidentiary record, and say thank you to FortisBC (FBC) for providing a submission on the timeline related to our letter of concern of November 9. That said, the Commission Panel directed that FBC and interveners provide submissions as follows:

1. *"Whether FBC has to date complied with Directive 5 of Order G-3-12 regarding an in-depth analysis of the LRMC* (Long Run Marginal Cost) *based on the specific requirements outlined in the FBC RIB* [Residential Inclining Block] *Rate Decision*" (A-19):

Unless this Commission panel plans to use a measure other than the LRMC, plus transmission and delivery costs, to determine whether or not FBC should set a flat or RIB rate, KSCA#81 submits as follows:

1. FBC has not complied with Directive 5 of Order G-3-12, and with G-127-13, and therefore prevented a comprehensive discussion of what the Tier 2 rate should be in relation to the Basic Customer Charge (BCC) and Tier 1 rate.

2. At no time has FBC ever asked for a variance or rescinding of Directive 5 of Order G-3-12, and therefore it must comply with providing the LRMC, with transmission and distributions costs added in, as required by the Commission, unless it, the Commission, orders a variance or rescinds Directive 5 itself, which to date the Commission has not done.

3. At no time has the Commission ever rescinded Directive 5 of G-3-12, and therefore Directive 5 of G-3-12 needs to be enforced by the Commission as the Commission needs the LRMC value and added transmission and distribution costs so that it can make an appropriate determination in the setting of the Tier 2 rate, in relation to the BCC and Tier 1 rate.

4. KSCA#81's representative, as a lay intervener, has been unable to make appropriate comment on the relationship between the setting of the BCC, Tier 1 and Tier 2 rates, in accordance with the Commission findings at 4.6.3 of G-3-12, pursuant to Directive 5 of Order G-3-12, and has therefore been denied the right to fully participate in and offer comprehensive comment on FBC's 2017 Cost of Service Analysis (COSA) and Rate Design Application, as the Commission panel envisioned in Directive 5 Order G-3-12 and Order G-127-13.

5. The Commission's FBC 2017 Cost of Service Analysis and Rate Design Application deliberation should therefore be adjourned until such time that the evidentiary record includes the required information from FBC as per Directive 5 of Order G-3-12, or the Commission panel in this Application provides a clear explanation as to why the information required in Directive 5 of G-3-12 is no longer required for the Commission to make a determination as to whether FBC should be ordered to continue with a RIB rate or instead initiate a flat rate.

As background to its submission, KSCA#81 submits that, in 4.6.3 of G-3-12, the Commission Panel determined (emphasis underlined):

"...*that the long-run marginal cost of new supply continues to be the appropriate referent for the Block-2 energy rate".*

However, the Panel then goes on to determine that (emphasis underlined):

"While the Panel considers the most appropriate referent to be the cost of acquiring energy through new resources, we note that all of the above marginal costs represent only the cost of acquiring the energy. Thus, there is ambiguity between the LMRC as defined by FortisBC and the true long-run marginal cost of new supply to the customer. The Block 2 rate is a delivered rate, while the LRMC is a cost of acquisition – it only relates to the cost of procuring energy but does not include the LRMC of transporting that energy to customers through transmission and distribution networks. FortisBC estimates the LRMC at $125.80 per MWh, or 12.58 cents per kWh, which includes line losses of 11 percent, but does not include other delivery costs. FortisBC has provided no further information about the cost to deliver this additional energy acquired from market purchases or new resources. Accordingly, the Panel finds that there is insufficient evidence to support the position of the BCOAPO [British Columbia Old Age Pensioner Organization] *that there is '...no need for FortisBC to implement a RIB rate in order to send the proper price signals to customers'.*

"*FortisBC's proposed Block 2 rate is 12.408 cents per kWh, assuming a 2012 implementation date, which is below its estimated LRMC cost of 12.58 cents per kWh, which includes line losses but excludes other delivery costs. Thus, the Panel is satisfied that this Block 2 rate is below the actual delivered LRMC. Because of the uncertainty of the actual LRMC, the Panel does not agree that the Block 2 rate be capped at this time. However, FortisBC is directed to provide an update of the full long-run marginal cost of acquiring energy from new resources, including the cost to transport and distribute that energy to the customer as part of the reporting to be submitted in 2014*" (G-3-12, 4.6.3 Commission Determination, p 41).

Subsequently the Commission panel, at 5 in Order G-3-12, determined that:

"*FortisBC is directed to provide a RIB Rate Evaluation Report (Report) covering the period from the date of implementation to December 31, 2013...The Report should also include an in-depth analysis of the full long-run marginal cost of acquiring energy from new resources, including the long-run marginal cost to transport and distribute that energy to the customer, and how that cost compares to the Block 2 rate;...an update of the Conservation Potential Review and report on the potential effects of interaction between RIB rates and Demand Side Management targets...This Report should be submitted to the Commission no later than April 30, 2014"* (Order G-3-12, p 3).

Starting at page 36 of their Final Argument, the BCOAPO undertakes an analysis entitled "Role of LRMC in BCUC Decision re: Current RCR [Residential Conservation Rate] Rate", which finds that FBC had not complied with Directive 5 of Order G-3-12:

"*BCOAPO notes that the requested information has not been provided to-date*".

Further, BCOAPO, in their Submission on Exhibit A-19, confirms their statement in their Final Argument:

"*In BCOAPO's view, the provision of two separate marginal costs which cannot be combined to establish a 'full' LRMC does not meet the objective and spirit of Directive 5 which was to establish a value for the 'full' LRMC of supply to a customer that could be used in assessing Residential rate design and, more specifically, the appropriateness of any value proposed for the Block 2 rate of the Residential Inclining Rate"*.

KSCA#81 concurs with the findings of BCOAPO as stated in its (KSCA#81's) Final Argument under a section entitled "Two Tier Versus Flat Rate" at page 5, with specific reference to the Commission panel's findings at pages 12, 13, 22, 24 and 41 of G-3-12. Further, in a section entitled "*How Can the Cost of Tier 2 Rates, Especially in Winter, be Ameliorated?*", KSCA#81, in a somewhat broader analysis than BCOAPO, specifically states (emphasis underlined):

"*In effect FBC, in this hearing, makes a definitive case for introducing TOU* [Time-of-Use] *rates using, in part, AMI* [Advanced Metering Infrastructure] *meter data, but then asks the Commission panel to rubber stamp a proposal to abandon two tier pricing without offering any rigorously collected data or information to prove that two tier pricing is not working and cannot work because all residential customers have maximized their conservation efforts already.*

"In contrast, in G-3-12, the Commission panel gave FBC clear instructions to monitor the LRMC of the second tier of electricity pricing, including the cost of delivery, and it therefore behooves this Commission panel to instruct FBC to undertake an appropriate and long term study as to what percentage of customers still need to undertake conservation measures and how they could be assisted financially to do so, as compared to FBC simply throwing up its hands and abandoning two tier pricing, and instead opting to purchase or produce ever more electricity contrary to the requirements of section 2 of the CEA.

"If this Commission panel agrees with the previous Commission panel's directive to FBC, as stated in G-3-12 at 4.6.3, then it should hold the Company's feet to the fire on this issue, or else this Commission panel needs to lay out the facts and legal requirements for setting a new course of action, with a clearly delineated alternate path to follow (G-3-12, 4.6.3 Commission Determination, p 41)" (KSCA#81, Final Argument p 9).

In both its Submission on A-19 and in its Reply Argument, the Company submits:

"*By Letter L-4-15 the BCUC allowed interveners in the original RCR proceeding to comment on the G-3-12. Of note in the intervener comments was the fact that none of the four (which included BCOAPO) who made comments on the Report made any claim that FBC had failed to comply with the reporting requirements of Orders G-3-12, G-127-13, or G-182-13A"* (FBC Submission on Exhibit A-19, para 9, p 4 and FBC Reply Argument, Para 27, page 7).

In response to this statement, KSCA#81 respectfully submits to this Commission panel that it is not up to the interveners in a particular application to enforce orders of the Commission as per the Judicial Review Act, which at 2 states (emphasis underlined):

"*(1) An application for judicial review must be brought by way of a petition proceeding.*

"*(2) On an application for judicial review, the court may grant any relief that the applicant would be entitled to in any one or more of the proceedings for:*

"*(a) relief in the nature of mandamus, prohibition or certiorari;*

"*(b) a declaration or injunction, or both, in relation to the exercise, refusal to exercise, or proposed or purported exercise, of a statutory power*" (Judicial Procedure Review Act, 2 Application for Judicial Review).

Further, KSCA#81 respectfully submits that, contrary to the claim of FBC, one of the four intervenors did make comment on the lack of fulfilment of requirement by FBC to implement Directive 5 of G-3-12, and in fact actually outlined the basis on which the setting of the Tier 2 rate could occur, in accordance with that intervener's understanding of what the Commission had directed FBC to do in Directive 5 of G-3-12 (emphasis underlined):

"*Here we note that we are in agreement with the Commission when, in G-127-13, 2 page 3, it states:*

"'Where reasonable, the Report must include:

"'a. A summary analysis of the full long-run marginal cost to acquire energy from new resources, including the long-run marginal cost to transport and distribute that energy to the customer, and how that cost compares to the Block 2 rate;'

"Tier 2 should be based on the Canal Plant Agreement, short term contracts and spot market prices, as well as any new plant that has to be built to cover expanding consumption, because in our opinion it is Tier 2

consumption that is driving up the cost of FortisBC operating, not Tier 1 consumption.

"But in response to the request above, in 4.2 of the Report, on page 23, especially lines 20 to 30, FortisBC states that it cannot do the analysis requested until it files further information in 2016. Why then, we simply ask the Commission, does FortisBC even offer an opinion on RCR pricing principles on page 28 (as cited above) if it has not done the statistical homework and analysis to provide the Commission with the information it, the Commission, requested in answer to 2 a above?" (Shadrack A Comments February 15, 2015, p 6).

Subsequent to the issuance of L-4-15, February 5, 2015, KSCA#81 submits that, after the Commission panel had reviewed FBC's RIB Rate Evaluation Report and the submissions on this Report, the Commission then issued a second letter numbered L-14-15, dated March 26, 2015, that determined (emphasis underlined):

"*The Commission reviewed the Evaluation Report and intervener comments and finds there is no evidence that the rate is not achieving conservation as intended and therefore there is no reason to make changes to the rate at this time. It is the Commission's view that the appropriate time to review the rate structure and explore alternate rate designs is during the next rate design application, which is currently planned for 2017"* (L-14-15 March 26, 2015).

KSCA#81 therefore respectfully submits that nothing in L-14-15 relieved FBC from complying with Directive 5 of G-3-12, and in fact to the contrary, the Commission explicitly stated that this current Application was the appropriate place "*to review the rate structure and explore alternate rate designs*". Without FBC providing the required LRMC, including cost of delivery, KSCA#81 submits, it is impossible to ascertain the Company's true costs versus what it is charging Tier 2 consuming residential customers, and whether that rate needs to change or be eliminated altogether.

KSCA#81 then submits that Order G-167-14 has no relevance to deliberations concerning FBC's RIB rate structure in this Application, as it does not discuss residential electricity purchases or sales whatsoever.

KSCA#81 therefore respectfully submits that unless this Commission panel wants FBC to abandon use of the LRMC as a referent determinant for the setting of the Tier 2 rate, then it should follow the advice given by the Commission panel to FBC in G-117-18 as follows:

"*FBC is encouraged to develop an LRMC framework that provides more consistency (and hence regulatory efficiency and clarity) across its future applications"* (G-117-18, 8.1.2 Purpose and application of LRMC beyond this Application, p 22).

Where, in FBC's Application or any other application or submission, KSCA#81 respectfully asks this Commission panel, can KSCA#81 find an LRMC value that includes the cost of transporting that energy to customers through transmission and distribution networks so that it, KSCA#81, can appropriately comment on the relationship between the setting of the BCC, Tier 1 and Tier 2 rates?

If not the LRMC value required to be created by FBC in Directive 5 of G-3-12, including the cost of transportation through transmission and distribution networks, what measure and framework did this Commission panel expect KSCA#81 to have used in its Final Argument to assess FBC's Application recommendation to move to a flat rate?

As lay interveners and residential customers, the implication for KSCA#81 is that while the Company can escape complying with Commission orders, for years at a time, we, as residential customers on fixed incomes, cannot ignore or evade above inflation rate increases for the BCC, Tier 1 and Tier 2 rates, nor can we expect those rates to be changed in a manner which is both explainable to us and in a manner on which we can comment in any meaningful way.

Thus, in the same way that we as residential customers have to comply with orders of the Commission when we take service and pay for energy from these regulated utilities, we likewise expect the Commission to enforce its orders on the utilities it has jurisdiction over to regulate.

2. The Commission Panel then directs that FBC and interveners provide further submissions as follows:

"*If FBC has not complied with Directive 5 of Order G-3-12, the implications, if any, this has on FBC's approvals sought in the current Application and on the Panel's ability to render a decision on specific items in the Application*" (A-19).

With reference to background information provided above, KSCA#81 notes that the Commission panel determined in G-3-12 that:

"*The Block 2 rate is a delivered rate, while the LRMC is a cost of acquisition – it only relates to the cost of procuring energy but does not include the LRMC of transporting that energy to customers through transmission and distribution networks*" (Ibid).

KSCA#81 therefore submits that, unless the cost of "*transporting that energy to customers through transmission and distribution networks*" is added to FBC's LRMC, the true cost of the Block 2 rate cannot be determined.

In Order G-3-12, at 5, the Commission panel was specific that:

"*The Report should also include an in-depth analysis of the full long-run marginal cost of acquiring energy from new resources, including the long-run marginal cost to transport and distribute that energy to the customer, and how that cost compares to the Block 2 rate*" (Opcit, p 3).

For KSCA#81 there is no ambiguity in the Order in terms of what FBC was directed to do and by when, including the further directive made in G-127-13, as referred to by Mr Shadrack in his comments on the RIB Evaluation Report in February of 2015.

With reference to the above directive as contained in 5 of G-3-12, KSCA#81 would specifically refer this Commission panel back to the principles outlined by Garfield and Lovejoy:

"1*. All utility customers should contribute to capacity costs...*

"*(2) The longer the period of time that a particular service pre-empts the use of capacity, the greater should be the amount of capacity costs allocated to that service*...

"*(6) More demand costs should be allocated to a unit of capacity pre-empted during a peak period than to one pre-empted off peak (Garfield, Paul J and Lovejoy, Wallace F, 'The Essentials of Rate Regulation', Pricing Policies, Public Utility Economics, Prentice Hall, 1964, p 163)*" (KSCA#81 Final Argument, pp 16, 22 and 23).

How, KSCA#81 asks this Commission panel to carefully consider, is the right rate to be set for the BCC, Tier 1 and Tier 2 rates if the LRMC value and cost of transmitting and distributing acquired energy remains either ambiguous at best or an unknown in terms of what FBC is thinking that value is?

Next, in relation to transmission and distribution costs of newly acquired energy, KSCA#81 refers the panel to FBC's answer to KSCA#81's IR#2.1.14.vi – specifically the variance between "Demand-related cost/month" between customer 1 and 2: $18.39 versus $72.29 (B-27 FBC Response to KSCA#81 IR#2.1.14.vi, p 27 and 28).

As Garfield and Lovejoy state in relation to principles 1, 2 and 6 outlined above:

"*One kilowatt-hour of energy is the result of one kilowatt operated for one hour. The kilowatt is also a measure of capacity of electrical equipment and the 'load' or demand for power by a customer, a customer class, or the system as a whole. Thus, a 150-watt light can cause a load or demand of 150 watts or 0.15 kilowatt. If operated for ten hours, 1.5 kilowatt hours of energy would be consumed (10 x.0.15 = 1.5). The relation between power and energy, therefore, is one of time. Power equals energy divided by time; and energy equals power multiplied by time*" (Ibid, p 152).

Thus Tier 2 costs, KSCA#81 submits, should not just be set in relation to the overall cost of the LRMC and the addition of transmission and distribution costs, but also in relation to the time of day and length of time a customer is using Tier 2 electricity above the Tier 2 threshold.

This is particularly important to understand given that the sum of FBC's own production, transmission and distribution costs are lower than the sum cost of purchased electricity (contract or spot), as instanced by the fact that the Company can only meet its wholesale and retail electrical needs for a few months of the year.

The above is, therefore, the context by which KSCA#81 understands the Commission panel issued Directive 5 in G-3-12, when they state:

"*...an in-depth analysis of the full long-run marginal cost of acquiring energy from new resources"* (Opcit, p 3).

In the absence of a completed in-depth analysis by FBC, BCOAPO, in its Final Argument, embarks on an assessment of returning to a flat rate at page 41, and on page 42 states:

"The results for all of the peak demand definitions used in the COSA showed that load factors increased with usage level. Since a higher load factor is generally correlated with a lower cost per kWh, this suggests that there is no cost basis for an inclining block rate and, indeed if anything, the cost per kWh for the second tier should be lower than the cost per kWh for the first tier" (BCOAPO, Final Argument, p 42).

The BCOAPO statement above appears to contradict the determination of the Commission in G-3-12, the context in which FBC has to buy additional energy at a greater expense to meet Tier 2 residential demands, and also contradicts principles outlined by Garfield and Lovejoy as found on page 163 of Public Utility Economics. In this context, KSCA#81 would ask this Commission panel to carefully consider FBC's answer at IR#2.1.14.vi, in which "customer costs" at $35.60 per month are nearly double "Demand-related cost/month", at $18.39 for Customer 1, whereas for Customer 2 the exact opposite is true: $35.60 for "customer costs" versus $72.29 "Demand-related cost/month". This rate design, KSCA#81 submits, is directly attributable to FBC's use of the Minimum System Study (MSS) method, with or without use of Peak Load Carrying Capacity (PLCC), within the current COSA.

In this attribution, KSCA#81 is backed up by the Commission's own findings in its March 2017 Residential Inclining Block Rate Report to the BC Government, when it determines that (emphasis underlined):

"*Furthermore, the Commission has also looked into the issue as to why there was a significant difference in the FortisBC R/C* [Revenue/Cost] *ratios calculated using historic costs, but not for BC Hydro. The Commission is aware of the following differences in Commission-approved cost allocation approaches that could be contributing factors:*

"FortisBC uses a minimum system approach to classify distribution costs as related to either peak demand or the number of customers. This approach reflects FortisBC's philosophy that the system is in place in part because there are customers to serve throughout its service territory, and that a minimally-sized distribution system is needed to serve these customers even if they only use 1 kWh of energy per year. <u>The Commission considers that this approach may result in more costs being allocated to small-use FortisBC customers (and hence fewer costs to high-use customers) than the approach used by BC Hydro (where distribution costs are primarily allocated based on demand)</u>.

"FortisBC allocates demand-related costs based on the sum of the two highest summer and two highest winter peaks, which reflects FortisBC's philosophy that, while the summer peak is not at the same level as the winter peak, it is growing faster than the winter peak and will increasingly have a larger impact on the system. The Commission considers that this approach, while approved as fair, may allocate more costs to customers with summer consumption (and hence less costs to winter consumption) than the approach used by BC Hydro (which uses 4 winter peaks).

"The Commission considers that these two factors have the potential to reduce the cost factor in the R/C ratio for FortisBC customers with no access to gas (which have higher use), thus increasing the R/C ratio itself.

Conversely, these factors may be increasing the cost factor in the R/C ratio for those customers with access to gas (who have lower use)*, and thereby reducing the R/C ratio. The Commission considers that the ability to decrease the 14.5 percentage point difference in FortisBC's R/C ratio based on historic costs by changing cost allocation assumptions, without any change to the RIB rate design, illustrates the caution that should be placed when interpreting BC Hydro and FortisBC's R/C ratio based on historic costs.*

"Taking all the above factors into consideration, the Commission does not find that the RIB rates cause a cross-subsidy between customers with and without access to natural gas for either of the Utilities" (2.0 Question 1 – Do the residential inclining block rates cause a cross-subsidy between customers with and without access to natural gas service?, British Columbia Utilities Commission Report to The Government of British Columbia on the Impact of BC Hydro and FortisBC's Residential Inclining Block Rates REPORT March 28, 2017, pp 5 and 6).

This determination by the Commission appears to contradict both the findings and Final Arguments of AMCS/RDOS and BCOAPO, and the support of the Commercial Energy Consumers Association of British Columbia (CEC) and the British Columbia Municipal Electrical Utilities (BCMEU) for FBC's Application to eliminate the RIB rate structure and replace it with a flat rate. It also underscores the need for FBC's own LRMC value, with the transmission and distribution costs added in, to be placed on the table so that a comprehensive discussion of the appropriate Tier 2 rate can occur in relation to issues with the current BCC and Tier 1 rates.

Then, starting at page 46, BCOAPO observes that FBC's currently stated LRMC value is $96/MWh, which, after calculating recent FBC submissions within the Self-Generation Policy Stage II Application, should be $95.15, but ultimately the LRMC value should be below $87 (BCOAPO, Final Argument, pp 46-48).

BCOAPO then goes on to state that:

"*Evidence prepared on behalf of BCSEA-SCBC* [British Columbia Sustainable Energy Association-Sierra Club of British Columbia] *states: 'The appropriate referent for FBC's Tier 2 energy price is $131.31/Mwh...'*

"However, the situation is also different in that at the time of Order G-3-12 there was only a minor difference between FBC's proposed Tier 2 rate ($124.08/MWh) and FBC's marginal cost of supply including losses ($125.80/MWh). In contrast, the LRMC for new supply is less than 64% of FBC's Block 2 rate and the LRMC for new supply is less than 81% of FBC's proposed flat rate of $117.49/MWh. As a result, it is not readily obvious that the Block 2 rate or even FBC's proposed flat rate is below the actual delivered LRMC.

"Given these observations, BCOAPO submits that there is insufficient evidence to conclude that FBC's long run marginal cost (even when the cost of delivery is included) exceeds FBC's current embedded cost such that Bonbright Principle #3 would support consideration of an inclining block rate for the Residential class. With this conclusion, BCOAPO submits that FBC's proposal to return to a flat rate is consistent with the Bonbright Principles and current Government policy" (BCOAPO, Final Argument pp 49-50).

As a consequence, KSCA#81 submits that in the absence of a clearly defined LRMC value provided by FBC in this Application, with appropriately defined transmission and distribution costs, there is now a difference of approximately 50.9% between BCOAPO and BCSEA/SCBC as to what constitutes the LRMC value. Subsequently. KSCA#81 finds itself sitting in between two polar opposite positions of AMCS/RDOS and BCOAPO (with support from Mr Gabana, CEC and BCMEU) which support FBC's Application, and BCSEA/SCBC (with support from Resolution Electric Ltd) which does not. Thus KSCA#81 submits that it, KSCA#81, is the only intervener to submit that the rate may have to be adjusted between the BCC, Tier 1 and Tier 2 providing the appropriate costs can be defined as per 4.6.3 of G-3-12 and Directive 5 of Order G-3-12 itself.

In this context KSCA#81 finds FBC's position in its Reply Argument, on the value of using the LRMC without actually providing that value in this Application, less than helpful in assisting KSCA#81 in reaching an opinion on what the Tier 2 rate should be, and that FBC, in addition, misrepresents KSCA#81's position altogether when it states (emphasis underlined):

"*Of the three interveners with an expressed preference to maintain the RCR, (BCSEA-SCBC, Resolution, and KSCA81), only the BCSEA-SCBC bases a portion of its argument on the relationship between the LRMC and the retail residential rate. Given the limitations provided above related to the use of the LRMC in rate setting, and the fact that the LRMC (even the delivered LRMC) is below retail rates, FBC does not believe that the BCUC should place much emphasis on the LRMC when setting rates for the Company. In fact the logical outcome in the case where marginal costs are below rates would be to have a declining block rate structure.*

"*In summary, FBC agrees with the theoretical use of an LRMC measure as a rate referent, as do most interveners. However, the exact LRMC measure to use is a matter of some debate. FBC does not a have an approved LRMC number to put forward and arriving at one is complicated by the recent BCUC decision in the 2016 LTERP* [Long Term Energy Resource Planning] *process. Most importantly, the discussion surrounding LRMC has little practical application in the context of setting conservation rates for FBC since it is likely that any measure of LRMC will be below the existing flat rate. With the exception of BCSEA-SCBC, interveners generally accept that the LRMC discussion supports the use of a flat rate, not the RCR"* (FBC Reply Argument, para 53 and 54, p).

So there you have it. FBC willfully refuses to comply with Directive 5 of G-3-12, while at the same time offering no alternative measure to determine how a RIB rate might be set and/or how to assess the pros and cons of a RIB rate versus a flat rate. Further, to the contrary of FBC's claim in the Company's Reply Argument (para 54), KSCA#81 explicitly used the LRMC value in the development of its Final Argument when it stated (emphasis underlined):

"'*...FortisBC is directed to provide an update of the full long-run marginal cost of acquiring energy from new resources, including the cost to transport and distribute that energy to the customer as part of the reporting to be submitted in 2014' (G-3-12, 4.6.3 Commission Determination, Ibid).*

"*Therefore FBC's Application to return to a single tier rate should be dismissed in its entirety, unless this Commission panel finds that there are facts or reasons at law why the two tier rate, as established under G-156-10 and G-3-12 should be changed. To be absolutely blunt, KSCA#81 believes that it has found no merits in the case that FBC has put forward in this Application that would require the Commission panel to order FBC to return to a single tier rate.*

"*What KSCA#81 does support is this Commission panel making a determination as to whether the Tier 1 and Tier 2 rates need to be adjusted in accordance with the previous Commission determination in 4.6.3 of Order G-3-12"* (KSCA#81, Final Argument, Two Tier Vs Flat Rate, p 6).

KSCA#81, in the absence of those defined LRMC costs, strenuously objects to the Commission panel moving to deliberation without KSCA#81 first having the opportunity to make comment on the facts of the matter, as FBC was so ordered to provide in Directive 5 of G-3-12. In a nutshell KSCA#81 could not provide an opinion to this Commission panel on whether the Tier 2 or Tier 1 rates should go up or down, as it had no benchmark against which to measure that opinion without FBC providing a delivered LRMC value.

In contrast, FBC, in its Reply Argument, flippantly dismisses use of the LRMC as any form of measure to determine rate design and setting of rates when it states:

"*Given that the FBC LRMC, even including delivery costs, is low relative to rates, it is more appropriate to pursue conservation from a DSM* [Demand Side Management] *perspective that has an associated cost-effectiveness criterion to consider. Rate design is better left as the vehicle for recovering the cost of service"* (Reply Argument para 89, p 26).

How, KSCA#81 asks this Commission panel to carefully consider, does FBC determine further expansion of the DSM program if it does not first place a delivered LRMC value on the table, as it has no measure against which to assess further conservation measures versus purchase of ongoing or new resources. Given FBC's and BCOAPO's vociferous argument against maintaining the RIB rate on the grounds that implementation of Bonbright Principal #3 has to be cost effective, is it not also contradictory for FBC to argue for a ramping up of DSM spending without first also knowing the current delivered LRMC value?

In this context, KSCA#81 respectfully submits that FBC, in its current rejection of the use of the LRMC value as a measure of how to determine a Tier 2 rate, and whether to retain a RIB rate at all, is simply trying to "kick the can down the road", when it continues in Part Eleven: Residential Default Rate Implementation, paragraphs 317 to 322, by stating at 317:

"*A key point of difference in the discussions has been with respect to the appropriate referent for the Tier 2 rate of the RCR, both in terms of its continuing applicability in setting residential rates and, where interveners suggest that the appropriate referent should be some measure of LRMC, how a LRMC applicable to the setting of rates should be determined*" (FBC Reply Argument, para 317, p 84).

And further, at 321:

"*FBC notes for example, that while it does not agree with the value for LRMC put forward by BCSEA-SCBC (0.13131/kWh), the Tier 2 rate that would be in effect in year 3 of the Company's proposal would be a similar value at 0.13421/kWh. Effectively, the evaluation after the year 3 rate change could result in consideration of whether a continued transition to a flat rate remains the appropriate outcome, or whether the evidence in the form of the phase-in report would justify retaining a modified RCR, but would be based on considerations that seem to underpin even the varying positions of the parties in this process*" (FBC Reply Argument para 322, p 84).

So KSCA#81 submits that while FBC acknowledges that there has been a debate around use of the LRMC and what its value is between the interveners, FBC itself, contrary to Directive 5 of G-3-12, will not provide a number itself for that value. However, the Company does then criticize BSCEA/SCBC's submissions when it offers an LRMC value different from the one the Company believes it to be. This, KSCA#81 submits, in the absence of an agreed upon LRMC value, simply becomes pure speculation as to what that LRMC value actually is and why, in which KSCA#81 does not have either the technical knowledge or the experience to judge who is right and who is wrong and thus gets pushed to one side in the discussion because FBC has failed to provide the required information.

In contrast, KSCA#81 submits that the original approach of the Commission, when it stated in 4.6.3 of G-3-12, prior to issuance of Directive 5 of G-3-12, is the correct path to follow (emphasis underlined):

"The Block 2 rate is a delivered rate, while the LRMC is a cost of acquisition – it only relates to the cost of procuring energy but does not include the LRMC of transporting that energy to customers through transmission and distribution networks. FortisBC estimates the LRMC at $125.80 per MWh, or 12.58 cents per kWh, which includes line losses of 11 percent, but does not include other delivery costs. FortisBC has provided no further information about the cost to deliver this additional energy acquired from market purchases or new resources. Accordingly, the Panel finds that there is insufficient evidence to support the position of the BCOAPO that there is '...no need for FortisBC to implement a RIB rate in order to send the proper price signals to customers'.

"*FortisBC's proposed Block 2 rate is 12.408 cents per kWh, assuming a 2012 implementation date, which is below its estimated LRMC cost of 12.58 cents per kWh, which includes line losses but excludes other delivery costs. Thus, the Panel is satisfied that this Block 2 rate is below the actual delivered LRMC. Because of the uncertainty of the actual LRMC, the Panel does not agree that the Block 2 rate be capped at this time. However, FortisBC is directed to provide an update of the full long-run marginal cost of acquiring energy from new resources, including the cost to transport and distribute that energy to the customer as part of the reporting to be submitted in 2014*" (G-3-12, 4.6.3 Commission Determination, p 41).

In fact, KSCA#81 actually agrees with AMCS/RDOS that it could well be that the Tier 2 rate is currently too high relative to the current LRMC value and added transmission and distribution costs. However, does that, KSCA#81 asks this Commission panel to carefully consider, mean that the BCC and Tier 1 rates are now too low?

Without knowing and settling on a defined LRMC value, and the additional transmission and distributions costs, how does this Commission panel propose to measure FBC's costs against collected revenues? Is it not equally possible that FBC, in setting the Tier 2 rates, has overstated its revenue requirements relative to the current

LRMC value, as was found to be the case by the Commission in G-117-18?

One way for the Commission to determine the facts of the matter is for the Commission panel to look at FBC's assigned residential class costs in 2016 versus actual collected revenues, and then to do the same comparison for 2017 (VOK Submission on Exhibit A-19). If the difference in earned revenues exceeds the ordered revenue requirement, then surely the issue is one of setting the Tier 2 rate too high and not that BCC and Tier 1 rates are too low, as FBC has indicated in its Application.

How the Commission makes that determination without having an agreed upon LRMC value at point of delivery, KSCA#81 submits, is impossible. As Mr Shadrack stated in February of 2015:

"*Tier 2 should be based on the Canal Plant Agreement, short term contracts and spot market prices, as well as any new plant that has to be built to cover expanding consumption, because in our opinion it is Tier 2 consumption that is driving up the cost of FortisBC operating, not Tier 1 consumption*" (Shadrack A Comments February 15, 2015, p 6).

In contrast, the implication for KSCA#81 members and others on fixed incomes in the FBC service area, according to BCOAPO in their Final Argument, is quite stark:

"If FBC's Residential Rate proposal was implemented in a single year then: i) over 70% of customers would experience some degree of (unfavourable) bill impact and ii) 55% of the customers would see bill increases of more than 10% (due solely to the rate design change) while almost 40% would experience bill impacts greater than 15% if fully implemented in over a single year.

"Furthermore, customers using 5,000 kWh or less annually would see an average bill increase of 16%. The average bill impacts for various ranges of annual use are set out below. It should be noted that while customers in the 0-5,000 kWh average annual use bracket experience the highest percentage bill impact, it is the 37% of total customers that fall in the 5,000-10,000 annual usage bracket that experience the highest dollar impact" (BCOAPO Final Argument, p 50-51).

Thus, in relation to Stats Canada's 2015 findings, the lowest income households (who also use the lowest annual amount of energy as explained by BCOAPO above) in the FBC service area are facing the highest percentage rate increases under the Company's rate design Application recommendation; and, further, 37% of residential customers in the next highest income bracket will face the highest dollar impact. This is in a situation whereby, between 1997 and 2017, FBC's actual COSA-determined Customer-Related per Unit Cost per month rose by 79.3%, from $19.86 to $35.60 (B-27, FBC Response IR#1.1.13, p 30).

In contrast, over the same twenty year period, the Commission ordered FBC to increase collection of the monthly per customer residential BCC from $6.67 per month to 16.05 per month, and, if this Commission panel accedes to FBC's application recommendation, this will be ordered to rise to $18.70 by 2023 – FBC's BCC alone being already 284% higher than that charged to BC Hydro residential customers, 205.3% higher than that charged to Nelson Hydro residential customers, and 170.9% higher than the Washington Utilities and Transportation Commission-ordered Puget Sound Energy BCC.

The context for this situation is that the Commission, in its own submission to the BC Government in March 2017 on RIB Rate pricing structure, acknowledged that:

"...the Commission has also looked into the issue as to why there was a significant difference in the FortisBC R/C ratios calculated using historic costs, but not for BC Hydro.

"*...FortisBC uses a minimum system approach to classify distribution costs as related to either peak demand or the number of customers. This approach reflects FortisBC's philosophy that the system is in place in part because there are customers to serve throughout its service territory, and that a minimally-sized distribution system is needed to serve these customers even if they only use 1 kWh of energy per year. The Commission considers that this approach may result in more costs being allocated to small-use FortisBC customers (and hence fewer costs to high-use customers) than the approach used by BC Hydro (where distribution costs are*

primarily allocated based on demand).

"...*Taking all the above factors into consideration, the Commission does not find that the RIB rates cause a cross-subsidy between customers with and without access to natural gas for either of the Utilities*" (2.0 Question 1 – Do the residential inclining block rates cause a cross-subsidy between customers with and without access to natural gas service?, British Columbia Utilities Commission Report to The Government of British Columbia on the Impact of BC Hydro and FortisBC's Residential Inclining Block Rates REPORT March 28, 2017, pp 5 and 6).

Ultimately the implication of FBC not complying with Directive 5 of G-3-12, as further directed in G-127-13, is that the Company has flipped the discussion from one of determining what the appropriate Tier 2 rate should be to reintroducing a flat rate. While KSCA#81 acknowledges that FBC has the right to propose an alternative to the RIB rate, the Commission, in its letter of L-14-15 of March 26, 2015, required that both analyses should take place in this hearing when it stated that this Application was the:

"...*appropriate time to review the rate structure and explore alternate rate designs*" (L-14-15).

In contrast, KSCA#81 members, as seniors, often on fixed incomes, are absolutely unable to ignore or evade Commission orders that set the price they must pay for electricity. The least the Commission can do, therefore, is to ensure that its orders are enforced even-handedly, with clear rationale as to why rates are set in the manner they are, with a right of lay intervenors, with limited technical knowledge and experience, being able to appropriately comment on <u>all</u> Commission directives and orders that have been issued.

Ultimately it should be the Commission that determines what information it needs and not the Applicant, and in G-3-12 the Commission panel made it very clear that the RIB rate was not a temporary measure, and therefore unless this Commission panel determines otherwise it should have all of the information it needs before it deliberates on what kind of residential rates should be set and why:

"*FortisBC refers to the 'interim nature' of the RIB rate, being effective between the current flat rate and the implementation of any time based rates. The Commission Panel cautions FortisBC against concluding that the RIB rate is only temporary in nature, particularly in view of not yet having made application for its AMI initiative, nor for any TOU rates associated with it. The RIB rate could well be an integral part of a longer-term conservation initiative and should be designed with that in mind, including the approaches used to measure and manage its ongoing efficacy*" (G-3-12, 4.9.3. Commission Determination, p 52).

For all of the above reasons, KSCA#81 respectfully submits that FBC should provide a duly developed LRMC value, with transmission and distribution costs attached, so that it can be determined what the appropriate apportionment of BCC, Tier 1 and Tier 2 costs are for the residential class.

The Commission panel the asks FBC and interveners to answer one final question:

3. "*Whether the evidentiary record should be reopened to address any of the issues raised in KSCA's email, including whether corrections are required to be made to the Application and, in particular, to the COSA study*" (A-19).

For all of the reasons stated in 1 and 2 above, KSCA#81 believes that the evidentiary record should be re-opened and that FBC should be so ordered to file an LRMC value with delivery (both transmission and distribution) costs attached, so that Directive 5 of G-3-12 and G-127-13 are fully complied with. Thereafter each intervener should be allowed to make comment on the delivered LRMC value relative to the price that should be set for the BCC, Tier 1 and Tier 2 rates versus moving to a flat rate as an alternative.

Beyond that one issue, KSCA#81 observed that starting at page 15 of its Final Argument, through to page 28, BCOAPO raised a number of issues related to the COSA that FBC in turn acknowledges, and then discusses in paragraphs 271 to 279 of its Reply Argument. Of particular concern to KSCA#81 were the issues noted by BCOAPO at pages 25 and 26 on whether the PLCC had been appropriately utilized – to which FBC gives satisfactory answer in its Reply Argument at paragraphs 277-279.

KSCA#81 therefore apologizes for any confusion it might have caused in its letter of November 9, as it did not intend to imply that it wished to further challenge use of MSS and PLCC methods per se. Rather, KSCA#81 was simply concerned that BCOAPO had found a series of errors in the implementation of both the MSS and PLCC method.

Therefore, beyond a reopening of the evidentiary record to address non-compliance with Directive 5 of G-3-12, as long as this Commission panel is satisfied that issues raised by BCOAPO have been appropriately addressed by FBC in its Reply Argument, then KSCA#81 is prepared to leave matters as they stand, as it was the combination of non-enforcement of compliance with Directive 5 of G-3-12 and the other issues that caused KSCA#81 to raise the additional matters in the first place.

In conclusion, as lay people, senior citizens and those on fixed incomes we look to the BC Utilities Commission to protect our right to access electricity and energy at rates and prices that we can afford. The notion that a regulated utility can simply ignore directives and orders, for years at a time, concerning assessing appropriate pricing within a particular class of customers is extremely troubling to us, and we, along with the Corporation of the Village of Kaslo, expect and anticipate that this Commission panel will rectify this situation.

All of which is respectfully submitted,
Andy Shadrack
for Kaslo Senior Citizens Association of British Columbia, Branch #81