From: Richard Tarnoff [otootski@gmail.com]
Sent: Sunday, July 31, 2011 10:45 PM
To: Commission Secretary BCUC:EX; wjandrews@shaw.ca; thackney@shaw.ca; bcuc@horizontec.com; bchydroregulatorygroup@bchydro.com; ngabana@gmail.com; hgrant@nelson.ca; cmcneely@kelowna.ca; JimQuail@bcpiac.com; support@bcpiac.com; ekung@bcpiac.com; rasika@telus.net; ashadra@telus.net; kootenaytax@shaw.ca; hmstansk@shaw.ca; electricity.regulatory.affairs@fortisbc.com; Dennis.Swanson@fortisbc.com; otootski@gmail.com; fredweislaw@gmail.com; jwrightman@econalysis.ca; r_work@telus.net; lworth@bcpiac.com
Subject: FortisBC Project No. 3698628/Order G-68-11 RIB Rate Application

July 31, 2011

Ms. Alanna Gillis
Acting Commission Secretary
BC Utilities Commission

In your letter of July 25, 2011, you asked participants for submissions regarding FortisBC's Residential Inclining Block Application. In particular, you asked (No.1) whether the record is sufficient to establish the level of Basic Charge in view of Order G-156-10 and accompanying Decision (pp 56-57).

I would submit that the record is ambiguous, misleading and totally insufficient to establish the level of Basic Charge in view of Order G-156-10. In that Decision the Commission is clear that, as a result of the BC Energy Plan, there is a "requirement for appropriate pricing signals for conservation and energy efficiency", and "the existing relatively high basic charge gives wrong pricing signals". The Decision also states that Bonbright Principle 3, which states that price signals should encourage conservation should trump Principle 2, which deals with fair apportionment of costs among customers. (pp. 56-57) (It should be noted that costs between customer classes can be fairly apportioned with varying levels of basic charge.)

Despite this clear direction from the Government and the Commission, FortisBC acts as if the conservation goal is only one of many goals of a RIB Rate Application, and not necessarily the most important. As a result, their preferred option yields about 50% less conservation impact than scenarios with lower basic charges that were suggested by BCUC and myself. Indeed FortisBC states that "the level at which the basic charge is set becomes somewhat arbitrary." (p.16) They go on to say on page 21 that "The Company is of the opinion that arriving at a precise level of consumption owing to the RIB rate will not be determinative in the decision to either implement such a rate, or have a significant bearing on the rate option chosen." FortisBC doesn't seem to have gotten the message. One would have thought that given the directions from the Commission, it would make sense to aim for the lowest basic charge possible.

The question naturally arises as to why FortisBC resists drastically lowering or eliminating the basic charge. Their first line of argument is that the basic charge should reflect some arbitrarily selected costs including meter reading and billing. However, they seem to have no problem accepting the existing situation in which the basic charge only covers 44% of the costs. Indeed, to the best of my knowledge no one, including the BCUC, has objected to the basic charge being too low.

FortisBC then falls back on what may be a more important concern to the company, the importance of revenue stability. In response to BCUC IR No. 1, Q12.4, FortisBC states:

"...the company maintains that the collection of fixed costs through fixed charges, as well as the established
need for revenue stability needs to be considered. Decreasing the customer charge and increasing the energy charges adds sales revenue volatility. FortisBC believes that its proposal provides an appropriate balance between the needs of the company and the concerns customers have with the level of the customer charge.

This is an interesting answer and suggests the need for further questions and information.
1. Has FortisBC submitted evidence supporting an "established need for revenue stability"?
2. Has FortisBC submitted evidence that "decreasing the customer charge and increasing the energy charge adds sales revenue volatility"?
3. Has FortisBC submitted evidence of the anticipated costs of revenue volatility?
4. FortisBC refers to the "needs of the company". What specific needs would these be? One would assume that any financial costs incurred by the company as a result of revenue volatility could be recovered in the normal way.

Without some supporting evidence, it is impossible to evaluate FortisBC's claims about the costs of revenue volatility. It might be worth noting, however, that other utilities see no problem with totally eliminating the basic charge. E-ON UK is part of E-ON, the world's largest investor-owned power and gas company. It is one of the leading energy suppliers in the UK and has no basic charge on its residential customers.

There has also been a suggestion that a basic charge enables the company to recover some costs from customers with seasonal dwellings, who may use no electricity for long periods, but who nonetheless benefit from having service. This may be a valid concern, but if it is, it should be addressed directly with a proposal, such as a minimum monthly number of kWH, that can be questioned and debated. It is inappropriate to be using a basic charge, that sends the wrong signals about conservation, to try and correct the problem of some customers getting a free ride.

Respectfully submitted,
Richard Tarnoff
Grand Forks, BC