

December 12, 2018

**VIA EMAIL**

Patrick Wruck - Commission Secretary  
B.C. Utilities Commission  
Sixth Floor, 900 Howe Street  
Vancouver, BC Canada V6Z 2N3



Reply to: Leigha Worth  
lworth@bcpiac.com  
Ph: 604-687-3034

Dear Mr. Wruck:

**Re: Application regarding its 2018 Fourth Quarter Gas Cost Report And Rate Changes effective January 1, 2019 For the Mainland and Vancouver Island Service Area ~ Project No.1598980**

Please be advised that we make the following submissions in regards to the above-noted application in this regulatory process on behalf of our client groups known in this and other regulatory processes as BCOAPO or BCOAPO *et al.* The member groups of BCOAPO *et al.* represent the interests of low and fixed income residential energy consumers before the BC Utilities Commission (Commission or BCUC) and, more specifically in this process, the interests of Fortis's low and fixed income residential natural gas ratepayers. As such, all of BCOAPO's member organizations have a direct and material interest in the outcome of this Application.

On November 23, 2018, FEI filed an application with the BCUC regarding its fourth quarter gas costs for the CCRA and MCRA deferral accounts. In this filing, FEI has indicated that it expects the CCRA deferral account to yield a \$14M surplus as of December 31, 2018 with a CCRA trigger ratio of 106.8%, outside the dead band of 95%-105%. This filing also indicated that due to the explosion that WEI experienced in October of this year, FEI "has been securing physical term supply at Huntingdon for the heating season so the MCRA costs include the costs of these changes and the reduction of its firm T-South Huntington Delivery capacity."<sup>1</sup> In dollar terms, this change is proposed to increase the Storage and Transport Charge for residential customers from \$1.064/GJ to \$1.485/GJ for a period of

---

<sup>1</sup> Exhibit B-1, page 2

one year effective January 1, 2019. In its Application, FEI has characterized this impact as material: that is, from our clients' perspectives, an understatement of epic proportions.

We have reviewed the Application and we must assume that, except for the alternate rate setting periods for Storage and Transportation (S&T) included and discussed therein (3 or 6 months as opposed to 12 months) FEI's preferred format (12 months) has been calculated using methodologies that were accepted and approved by the BCUC and that have been applied to other rates and rate riders.

### **Rates and Periods Set to Incent Curtailment**

After reviewing Order G-230-18<sup>2</sup> as well as the BCUC's IR's to FEI, it is clear that our Regulator was rightly concerned with the risk of curtailment to industrial, commercial, and residential customers as a result of the T-South pipeline explosion. We trust that the information FEI has provided in the interim has allayed that concern, reducing the perception that a steep increase in the S&T rates are necessary to incent conservation throughout the winter heating season.

Not surprisingly, BCOAPO considers curtailment, especially curtailment of a source of energy many use to heat homes and cook food to be a serious issue: a potentially deadly serious one. The World Health Organization's standard for warmth is:

The World Health Organization's standard for comfortable warmth is 18 °C (64 °F) for normal, healthy adults who are appropriately dressed. For those with respiratory problems or allergies, they recommend no less than 16 °C (61 °F), and for the sick, disabled, very old or very young, a minimum of 20 °C (68 °F).<sup>[9]</sup>

---

<sup>2</sup> Exhibit A-2

While admittedly it is not clear what the WHO standard was based on, there is evidence aside from the WHO warmth standard indicating that a thermostat set to 18 degrees Celsius is an acceptable temperature for a house full of healthy adults but that homes with children, the aged, and those with respiratory or other illnesses can only reduce their homes' temperatures to a certain point before experiencing a greater risk of mortality<sup>3</sup>.

Since few households are composed exclusively of healthy adults, it is fair to say that the expectation that people will simply adapt to curtailment, whether rooted in environmental or financial concerns, and whether imposed or implemented in response to price signals, should not be adopted lightly. In a home of healthy adults normally heated to 21 degrees, temporarily dropping the temperature to a slightly crisper 18 degrees is not overly detrimental: putting on an extra sweater and slippers is hardly a risk to health. However, in homes where the temperature is normally kept lower because of the cost to heat, in homes where young children live, where the elderly live, where the sick and weak live a 3-degree drop can mean the difference between health and hospitalization or even life or death.

BCOAPO strongly opposes any rate, or time frame, designed for the purpose of incenting curtailment through the use of higher prices. These are, as FEI opined, punitive and particularly difficult for our clients to absorb. In the continuing absence of a low-income rate, the risk to a significant portion of BC's population of a punitively high rate during the winter heating season is too great.

BCOAPO notes that FEI has offered the opinion that the threat of curtailment has declined.

During the period between October 9, 2018 and November 29, 2018, FEI believed there was a significant risk to the natural gas supply in the region, which could have resulted in customer curtailment. This was due to Enbridge's

---

<sup>3</sup> <https://publichealthmatters.blog.gov.uk/2014/10/21/preventing-avoidable-deaths-this-winter/>;

T-South capacity at Huntingdon being restricted between 17 percent and 68 percent of its normal operating pressure during that time frame. However, since that time period the risk has declined for the following reasons ... Enbridge has scheduled dig and inline inspections periodically in December and January. This will cause T-South capacity at Huntingdon to be temporarily restricted to lower than 85 percent of its normal operating pressure. These inspections are not commonly scheduled in December and January; however, they must be completed now in order to get T-South pipeline capacity back to normal operating pressure in the near future. Therefore, there is still uncertainty and risk to the natural gas supply going forward, especially pending the outcome of Enbridge's dig and inline inspections scheduled in December and January. However, as laid out in this response, FEI believes that the previous level of significant risk to supply has declined.<sup>4</sup>

The "conservation rationale" appears to rest upon the premise that the price elasticity of demand effect ("elasticity effect") would increase as the elasticity of demand increases. However, BCOAPO notes that in economics the price elasticity of demand is a number which is typically defined as the percentage of decrease or increase in the quantity of a commodity like natural gas used in response to a one percent increase or decrease in price. Thus, elasticity is a measure of the changes in demand in response to a change in price. The more inelastic the demand for a good or service is, the less responsive the demand is to an increase in price.

As such, if we were considering a good or service that had a very elastic (short run) demand, then an increase in price would cause a corresponding and proportionate decrease in the quantity demanded. If that was the case, it could theoretically be an appropriate course of action to consider in a situation where a short and sharp supply

---

<sup>4</sup> Exhibit B-2, BCUC IR 1.1

constraint existed. However, that is not the case here and there is no evidence on record to support such a characterization of natural gas use.

In economic theory, the two major determinants of elasticity of demand are (i) the availability of close substitutes and (ii) the time period over which the price and quantity data were measured, with elasticity increasing as (i) the availability of close substitutes increases, and (ii) as the time period over which the price and quantity demanded increases. The implication is, stated very simply, that (i) the more close substitutes are available, the greater the ability to switch to an alternative in response to an increase in the price of the subject good or service and (ii) the longer the time period over which the effects of the price increase are observed, the more opportunity there is for alternatives to become available and for consumers to react.

On this subject, BCOAPO notes the response provide in B-2, IR 1.1.1 includes the following:

In FEI's view, it is possible that higher natural gas rates may encourage conservation of gas but FEI is uncertain to what extent and how quickly such an outcome might occur. As such, FEI is uncertain whether and how much of a higher natural gas rate would sufficiently impact natural gas demand in a short time frame to meaningfully reduce the risk of customer curtailment associated with the October 9 incident. In contrast, preliminary data with respect to FEI's actions to encourage customers to voluntarily conserve natural gas appear to indicate that these actions have induced a certain level of natural gas conservation already. ...

Overall, FEI concludes from these studies that, over a 20-year time horizon, natural gas demand is relatively inelastic to natural gas prices, that natural gas demand should decline with increases in the natural gas price, and that elasticity

has not changed materially over time. In sum, FEI does not have the information that would be required to evaluate price elasticity across a period as short as multiple months. As such, FEI is not able to estimate what change in natural gas rates would be required to encourage customers to reduce demand to levels that would meaningfully reduce the risk of customer curtailment associated with the October 9 incident.

We note in the circumstances under consideration now, there are few, if any close substitutes available for the majority of gas ratepayers' space heating requirements (other than gas) and the time period for alternative rates is quite short term, i.e., 2019 Q1. Both of these factors support the fact that the residential demand for gas is likely to be unresponsive in the short run for residential space heating gas customers in the event of a short-term price increase. The fact of the matter is that the elasticity of residential load is commonly accepted to be relatively inelastic, and even more inelastic in the short term than the long. Now, when low- and fixed-income residential customers are under consideration, they are even less likely to be able to access or install alternatives for a longer-term increase, let alone options to deal with a constraint that is expected to last only one quarter. As a result, the elasticity of their load is arguably even less.

BCOAPO submits the scant evidentiary record available in this process indicates that gas demand is inelastic in the short term and that therefore any short-term rate increases would not be an optimal choice.

### **Rate Impacts of the Various Scenarios**

BCOAPO notes that per Exhibit B-2, IR 2.2.1 and IR 3.1, while the S&T rate increases and the bill impacts are considerable under the 12-month rate-setting methodology FEI favours, they are greatly exacerbated under the alternative 3-month and 6-month scenarios. So, in addition to sober questions as to the short-term efficacy of the

alternative proposals, their customer impacts are, for low-income customers, untenably extreme.

BCOAPO also submits that considerations of rate volatility do not argue in favour of the alternative scenarios. On page 3 of Exhibit 1, there is a discussion of an alternate approach that BCOAPO notes would mean the Storage and Transport Charges would begin to over recover costs immediately at the end of the winter period and the forecast over collection after March 2019 would create a significant surplus balance in the MCRA deferral account. The Storage and Transport rates would have to be reviewed again in the 2019 First Quarter Gas Cost Report and almost certainly decreased effective April 1, 2019 due to the forecast significant over recovery of costs during the remaining 9 months of the year (as reflected in the schedule at ALTERNATIVE Tab 3, Page 1).

I cannot stress strongly enough that this forecasted rate and bill volatility would be especially difficult for income-constrained and economically vulnerable ratepayers, occurring in the coldest months of the heating period and just after the 2018 holiday season bills have come due.

### **Conclusion**

Therefore, for reasons of efficacy, fairness, and rate volatility, BCOAPO strongly opposes any suggestion of a rate setting period of less than 12 months for S&T rates. Given the quantum of the rate impacts of the 12-month rate-setting period FEI has proposed, in a process where Intervenor IR's were permitted, we would have opted to explore as many other options as possible to lessen this impact so they would be on the evidentiary record for this Commission Panel to consider. In these circumstances, BCOAPO is in a difficult situation. Our clients cannot all reasonably be expected to absorb the cost impacts of even FEI's more moderate 12-month rate-setting period but the only alternatives on the record are ones that are even more impossible to contemplate.

In the absence of a low-income rate, a rate Fortis has thus far declined to pursue, BCOAPO must on behalf of our clients take the position that now is an appropriate juncture to consider extraordinary measures to deal with an extraordinary situation. It is incumbent upon us as those participating in this regulatory process to explore what, if any, alternatives there might be to even a 12-month S&T rate setting period to mitigate the rate impacts of this situation or worse, the health and welfare effects of load curtailment brought on by the inability of those living in energy poverty to absorb this sharp of an increase in S&T costs. BCOAPO reiterates the importance of ensuring access to space heating during the coldest months for vulnerable customers.

All of which is respectfully submitted.

Sincerely,  
**BC Public Interest Advocacy Centre**

*Original on file signed by*

Leigha L. Worth  
Barristers & Solicitor