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BARRISTERS AND SOLICITORS

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British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

filed online

Dear Mr. Wruck:

**Re: British Columbia Hydro and Power Authority
Residential Inclining Block Rate Pricing Principles Extension for Fiscal 2021 and
Fiscal 2022 Application**

This is the submission of the Movement of United Professionals (MoveUP), pursuant to Order G-43-20.

Our client submits that the circumstances and objectives that produced the Residential Inclining Block rate are no longer applicable, that the task of structuring BC Hydro's residential rates is pressing, and that the Commission should deny the relief sought in the Application and instead direct as follows:

1. The application to extend the RIB is adjourned generally.
2. Within a stipulated reasonable time (we suggest two months) following the release of the BC Government's Comprehensive Review of BC Hydro Phase 2 Final Report, the Commission will invite submissions from BC Hydro and subsequently from interveners regarding the next steps to be taken to redesign the default residential rate structure and the general characteristics that it should assume.

The RIB is well past its "best-before date"

The RIB was conceived as a mechanism to discourage incremental electricity consumption by residential ratepayers, using a two-tiered rate structure to impose a disproportionately severe bill impact on consumption exceeding the tier-two threshold.¹ A chief impact of the

¹ For a general discussion of these propositions see BC Hydro 2020-21 RRA Vol. 14 pages 2761 to 2773

RIB is to significantly increase the cost of electrical space and water heating. It was launched at a time when BC Hydro was acquiring generation resources, mainly through energy purchase agreements, and was calibrated to expose residential ratepayers to the utility's long run marginal cost of energy.

There are several reasons why none of these justifications for the RIB remain viable. Chief among them are the following:

1. BC Hydro is in an energy-surplus position and expects to remain so for more than a decade. In fact, it has developed industrial rate options designed to incent consumers to increase their electricity consumption in order to "sop up" surplus and particularly non-firm energy at a price that is below Hydro's cost of its acquisition, but entails less economic loss than its disposition into in export markets or by other means. Penalizing residential ratepayers for incremental consumption is not only inequitable but counter-productive.
2. Discouraging electricity consumption, especially by means of a "blunt instrument"² like RIB, directly undermines British Columbia's CleanBC objectives; it undermines low-carbon electrification strategies to mitigate the rising tide of weather catastrophes and other adverse consequences of climate change caused primarily by the combustion of hydrocarbons.

For example, the RIB disincent the proliferation of electric vehicles, because battery charging at an owner's residence would attract the Tier 2 rate. As long as most residences are served by a single meter, RIB is an obstacle to EV adoption.

Residential rates should be designed to encourage consumption, particularly where electricity would displace the use of GHG-emitting resources. RIB is the wrong tool for the job.

3. The rationale for relying on Hydro's LRMC as the price signal to ratepayers is obsolete because the utility's cost of incremental consumption is not its LRMC.³ On the basis of the RIB's underlying economic theory, LRMC is the wrong signal.

For the foreseeable future, with BC Hydro's persistent energy surplus and absence of reason to construct or contract for new supply, the marginal costs of incremental consumption are better measured by market prices (the Short Run Marginal Cost) which are much lower than the Tier 2 RIB rate. SRMC price-signalling would be better aligned with the province's (and Canada's) climate policy and broad societal objectives.

4. In any event, Hydro acknowledges that the calibration of RIB tier 2 is far higher than BC Hydro's current long run marginal cost of energy.

² BC Hydro 2020-21 RRA Vol. 14 page 2765 lines 19-25

³ BC Hydro 2020-21 RRA Vol. 14 page 2767 line2 to 2768 line 6

5. Finally, there is no evidence that the RIB achieved its original conservation objectives, and BC Hydro does not expect the rate to deliver incremental conservation.⁴

BC Hydro is waiting on the Phase 2 Report

While BC Hydro witnesses in the concurrent Revenue Requirements proceeding have acknowledged many reasons why the RIB is counter-productive and no longer well-founded, they consistently expressed the intention to wait for the Phase 2 Report before proceeding with any material change in residential rate design (along with a number of other issues).

For example, sitting on BC Hydro Panel 2, Ms. Fraser testified as follows:

MS. FRASER: A I believe that with the proper analysis that there are a lot of different combinations in terms of how your -- what a basic, your basic rate, how that could combine with an optional rate, and BC Hydro is looking forward to exploring all those types of options when we go into full rate design consultation. And as I said yesterday, we would like to see what the decisions that come out of the comprehensive review phase 2 report are because there is a portion of the terms of reference that relate to how BC Hydro can support Clean BC and electric vehicle and low carbon electrification definitely fits in there. And there would be opportunities to explore optional rates to promote greenhouse gas emissions reductions and promote electrification and when you're looking at optional rates, we can explore how that would fit in with the current rate structures.

(Vol 7 p 1023)

Waiting for the Report is one thing; ragging the puck through two fiscal years is another.

The Phase 2 Interim Report provides us with a clear glimpse of the direction we can expect out of its Final version. At page 11:

Rate Design

Under BC Hydro's tiered residential rate structure, customers pay a higher rate for electricity usage over a certain monthly volume. This rate structure was designed to provide an incentive for customers to conserve energy so that BC Hydro could avoid building or procuring new resources. This two-tier rate structure made sense when BC Hydro was in deficit and when the marginal cost of additional electricity supply was much higher than it is today. BC Hydro applied in February 2020 to extend the pricing principles for this rate by two years. Pricing principles determine how general rate increases are applied to the various charges under a rate schedule, in

⁴ BC Hydro 2020-21 RRA Ex. B-15 MoveUP IR 4.8.1

this case the Basic Charge, Step 1 Energy Charge and Step 2 Energy Charge. If BC Hydro were to make any changes to its default residential rate, it would file a rate design application for review and approval with the BCUC that would be informed by feedback from customers and stakeholders.

....

The Interim Report does not contain a more explicit indication of the appropriate fate of the RIB, but proceeds with a brief discussion of the potential for additional optional rates. However, its characterizations of what is wrong with RIB are consistent with our comments here, and point to the need to replace the “standard” residential rate with a structure that is properly aligned with policy and with regulatory principle.

As Ms. Fraser suggested in her testimony, it appears that BC Hydro intends to develop optional rates to promote EV and possibly other electrification opportunities (such as heat pumps). This actually compounds the problem with leaving the RIB in place as the “normal” or default residential rate: it does not provide the appropriate baseline for the design of those optional or specialized rates, and it does not provide customers with the appropriate starting-point to make decisions about whether to adopt those rates. It also undermines efforts in the design of optional rates to incent avoidance of utility fixed cost recovery.

BC Hydro needs a more comprehensive approach to revising the standard tariff and efficiently enabling the introduction of optional EV (time of use) or other “electrification-related” rates.

Disposition

The persistence of a residential rate that is demonstrably unfit for its purpose is a serious problem. The problems with RIB will deepen and compound over time. BC Hydro and its regulator should not postpone the task of setting it right any longer than is necessary. We submit that an efficient outcome would be to adjourn this application generally and, once we have all an opportunity to digest the Final Phase 2 Report, the re-launch it as the start of a review of the objectives and characteristics a residential rate regime that is in tune with current and emerging needs, and to map out a plan for the filing and consideration of an application to replace the RIB with something much better.

In the alternative, the application should be dismissed.

All of which is respectfully submitted.

Yours very truly,

ALLEVATO QUAIL & ROY

A handwritten signature in blue ink, appearing to read 'J. Quail', is written over a light grey rectangular background.

per **Jim Quail**
Barrister & Solicitor