



ORDER NUMBER
G-62-20

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

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

BEFORE:

T. A. Loski, Panel Chair
C. M. Brewer, Commissioner
M. Kresivo, QC, Commissioner

on March 26, 2020

ORDER

WHEREAS:

- A. On February 13, 2020, pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), British Columbia Hydro and Power Authority (BC Hydro) filed with the British Columbia Utilities Commission (BCUC) an application to extend to March 31, 2022 the Residential Inclining Block (RIB) rate pricing principles in Rate Schedule (RS) 1101 and RS 1121, whereby the basic charge, Step-1 energy rate, and Step-2 energy rate (RIB Rate Components) would increase by the general rate increase approved by the BCUC for Fiscal 2021 and Fiscal 2022 (Application). BC Hydro states the extension will provide rate stability to residential customers while the BC Government's Phase 2 of the 2018 Comprehensive Review of BC Hydro (Review), which includes consideration of BC Hydro's rates, is in progress. The Review may inform BC Hydro's next residential rate pricing application;
- B. By Order G-124-08 dated August 28, 2008, the BCUC approved BC Hydro's application to implement a RIB rate for its residential customers, with approval of pricing principles for BC Hydro's Fiscal 2009 and Fiscal 2010 periods;
- C. By Order G-47-10 dated March 15, 2010, and Order G-180-10 dated December 2, 2010, the BCUC approved, on an interim and final basis, respectively, a pricing principle for the RIB rate for BC Hydro's Fiscal 2011 period;
- D. By Order G-45-11 dated March 14, 2011, the BCUC approved a RIB rate pricing principle for BC Hydro's Fiscal 2012 to Fiscal 2014 periods;
- E. By Order G-13-14 dated February 4, 2014, the BCUC approved a RIB rate pricing principle for BC Hydro's Fiscal 2015 and Fiscal 2016 periods;

- F. By Order G-5-17 dated January 20, 2017, the BCUC approved the RIB rate pricing principle of uniformly increasing the RIB Rate Components by the amount of the approved Revenue Requirements Application (RRA) rate increases for BC Hydro's Fiscal 2017 to Fiscal 2019 periods;
- G. By Order G-214-18 dated November 8, 2018, the BCUC approved BC Hydro's application to extend to March 31, 2020, the RIB rate pricing principles in RS 1101 and RS 1121, whereby the RIB Rate Components would increase by the general rate increase as approved by the BCUC for Fiscal 2020;
- H. By Order G-43-20 dated March 4, 2020, the BCUC established a regulatory timetable for the review of the Application, which included a request for submissions from parties who oppose the BCUC's approval of the Application and an opportunity for BC Hydro to reply; and
- I. The BCUC has considered the Application and submissions and finds that approval of the Application is warranted.

NOW THEREFORE, pursuant to sections 59 to 61 of the UCA and for the Reasons for Decision attached as Appendix A to this order, the BCUC orders as follows:

1. BC Hydro's application to extend to March 31, 2022 the RIB rate pricing principles in RS 1101 and RS 1121, whereby the RIB Rate Components would increase by the general rate increase as approved by the BCUC for Fiscal 2021 and Fiscal 2022, is approved effective April 1, 2020.
2. BC Hydro must file a report with the BCUC one year from the date of this order that discusses its progress regarding developing its next residential rate design application and the anticipated filing date of that application. The report must also include details of its activities to date and its planned activities regarding the development of that application.

DATED at the City of Vancouver, in the Province of British Columbia, this 26th day of March 2020.

BY ORDER

Original signed by:

T. A. Loski
Commissioner

Attachment

British Columbia Hydro and Power Authority

Residential Inclining Block Fiscal 2021 and Fiscal 2022

Rate Pricing Principles Extension Application

Reasons for Decision

March 26, 2020

Before:

T. A. Loski, Panel Chair
C. M. Brewer, Commissioner
M. Kresivo, QC, Commissioner

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1.0 Background and Context

1.1 Application and Regulatory Process

On February 13, 2020, BC Hydro filed with the British Columbia Utilities Commission (BCUC) an application to extend to March 31, 2022 (end of fiscal 2022) the current Residential Inclining Block (RIB) rate pricing principles in Rate Schedule (RS) 1101 and RS 1121. BC Hydro proposes that the basic charge, Step-1 energy rate, and Step-2 energy rate (RIB Rate Components) would uniformly increase/decrease by the approved revenue requirements application (RRA) rate increases/decreases for each of Fiscal 2021 and Fiscal 2022 (Application).¹

As part of the review of the Application, the BCUC directed BC Hydro to provide notice of the Application to all registered interveners in the BC Hydro F2020 to F2021 RRA proceeding that is currently before the BCUC and the BC Hydro 2015 Rate Design Application proceeding. The BCUC requested submissions from any party who opposes the BCUC's approval of the Application and the rationale for the opposition.² The BCUC received submissions from the Movement of United Professionals (MoveUP), the Regional District of Mount Waddington Board (RDMW) and Ecotrust Canada opposing the BCUC's approval of the Application.

1.2 Background and Relevant Previous Decisions

The RIB rate under RS 1101 and RS 1121 applies to BC Hydro's residential customers in Rate Zone I. The RIB rate structure is a two-step (also called a two-tier) inclining block rate with a basic charge, a Step 1 energy rate and a Step 2 energy rate. The consumption threshold between the Step 1 and Step 2 energy rates is 1,350 kWh and was designed to be near 90 percent of the median consumption of BC Hydro's residential customers. The current F2020 RIB rate pricing is set out in Table 1 of the Application.

The RIB rate structure was first introduced in the 2008 RIB Rate Application in response to the 2007 Energy Plan's objective of encouraging electricity conservation.³ Since 2008, the RIB rate pricing principles, of uniformly increasing the RIB Rate Components by the approved RRA rate increases for the period, have been maintained and approved by the BCUC, with the exception of the period from fiscal 2012 to fiscal 2014 inclusive.⁴ For the period from fiscal 2012 to fiscal 2014, the BCUC found that the Step-2 rate had to increase at a rate different from the approved RRA rate increase due to the existing wide gap between the Step-2 rate and the long-run marginal cost.⁵ The approval of the current pricing principles for the RIB rate expires on March 31, 2020.

1.3 Legislative Framework

When setting utility rates, the BCUC is governed by sections 59 to 60 of the *Utilities Commissions Act* (UCA), which state that rates must not be "unjust, unreasonable, unduly discriminatory or unduly preferential."

¹ Exhibit B-1, p. 1.

² Exhibit A-2.

³ British Columbia Hydro and Power Authority (BC Hydro) 2008 Residential Inclining Block Application, Final Order G-124-08 with Reasons for Decision.

⁴ BC Hydro Application for Review of Its F2011 Revenue Requirements, Final Order G-180-10 with Reasons for Decision; BC Hydro RIB Rate Re-Pricing Application, Final Order G-45-11 with Reasons for Decision; Order G-13-14; BC Hydro 2015 Rate Design Application, Order G-5-17; BC Hydro RIB Rate Pricing Principles Extension Application, Final Order G-214-18.

⁵ BC Hydro RIB Rate Re-Pricing Application, Final Order G-45-11, Appendix A, BC Hydro RIB Re-Pricing Reasons, pp. 14-15.

2.0 Overview of BC Hydro's Proposal

2.1 Phase 2 of the BC Government's Comprehensive Review of BC Hydro

Phase 2 of the BC Government's Comprehensive Review of BC Hydro (Phase 2 Review) is currently in progress and is expected to inform, among other things, BC Hydro's rate design.⁶ On March 6, 2020, the BC Government released an interim report of the Phase 2 Review (Interim Report), which stated that BC Hydro's current tiered residential 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." The Interim Report also notes that "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."⁷

Further, the Interim Report discusses the potential for optional rates and states that "BC Hydro is conducting preliminary analysis on a number of optional rate designs as part of the Phase 2 Review. Based on feedback from the Phase 2 Review, with further analysis, and engagement with stakeholders and customers as part of a BCUC rate design application process, BC Hydro will determine which optional rates to pursue."⁸

2.2 Rationale for Proposed RIB Rate Pricing Principles

BC Hydro states two reasons for the extension request. First, in BC Hydro's view, the results of the Phase 2 Review may result in outcomes that inform BC Hydro's future rate designs. Thus, BC Hydro needs time to engage stakeholders once the results of the Phase 2 Review is released to develop pricing principles for the next Residential Rate Design Application.⁹

Secondly, in BC Hydro's view, rate stability is important for its customer and stakeholders. Thus, by maintaining the current pricing principles, it will help maintain rate stability as it would result in the status quo where the general rate increase/decrease is applied equally to the RIB Rate Components.¹⁰

Position of Parties

The BCUC received submissions from MoveUP, RDMW and Ecotrust Canada opposing the BCUC's approval of the Application.

In MoveUP's view, "the circumstances and objectives that produced the [RIB] rate are no longer applicable" and "the task of structuring BC Hydro's residential rates is pressing." MoveUP recommends that the BCUC not approve the application and instead direct:

⁶ Terms of Reference Comprehensive Review of BC Hydro – Phase 2, p. 5, retrieved from: https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/electricity/bc-hydro-review/bch_review_phase_ii_tor_190716_public_clean.pdf.

⁷ Ministry of Energy, Mines and Petroleum Resources - Comprehensive Review of BC Hydro – Phase 2 Interim Report (Interim Report), p. 11, retrieved from: https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/electricity/bc-hydro-review/bc_hydro_cr_ph2_ir_mar06_2020_f.pdf.

⁸ Interim Report, p. 11.

⁹ Exhibit B-1, p. 4.

¹⁰ *ibid.*

- 1) The adjournment of the application; and
- 2) After 2 months following the release of the Phase 2 Review report, invite submissions from BC Hydro and interveners regarding the next steps “to redesign the default residential rate structure and the general characteristics that it should assume.”¹¹

MoveUP further submits that leaving the RIB rate in place would create challenges in designing optional rates, and states that:

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.¹²

RDMW requests that the BCUC not approve the Application. RDMW opposes the RIB rate structure for the following reasons:

- It subsidizes households that use fossil fuel as its primary heating fuel by households in rural and indigenous communities that have no access to natural gas;
- It encourages fuel switching from hydro to CO2 emitting; and
- It creates a barrier to adopting electric vehicles.¹³

In RDMW’s view, “BC Hydro has had plenty of time to develop viable options to phase out the inequitable and ineffective RIB rate.”¹⁴

Ecotrust Canada opposes the BCUC’s approval of the Application.¹⁵ In Ecotrust Canada’s view, the RIB rate structure unduly discriminates against those customers in rural, remote, and Indigenous communities who have limited choices for housing stock and alternative energy sources. Ecotrust Canada notes that larger homes that are heated with electric furnaces or baseboard radiators are more challenged to maintain their usage within the lower-priced block. Ecotrust Canada submits that customers in some of these households are most at-risk for energy poverty in the province, and thus suggests that this rate structure requires immediate attention.¹⁶ Ecotrust Canada also submits that “the entire customer base will need to be properly incentivized” to meet BC’s Clean BC climate plan.¹⁷

In Ecotrust Canada’s view, it would not be appropriate to approve an extension of the RIB rate structure for another two years given the ongoing discussion of the issues with the current rate structure and given that the Phase 2 Review report has not been released. Ecotrust Canada further submits that one year would be a sufficient timeframe to consider the findings of the Phase 2 Review and to engage in broader public consultation. Ecotrust Canada also recommends a full proceeding to review the proposed rate extension because it believes there would be high public interest, and also so that it can provide input from its experience working directly with affected communities.¹⁸

¹¹ Exhibit E-2, p. 1.

¹² Ibid., p. 4.

¹³ Exhibit E-3, p. 1.

¹⁴ Ibid., p. 2.

¹⁵ Exhibit D-1-1, p. 1.

¹⁶ Ibid., pp. 1-2.

¹⁷ Ibid., p. 2.

¹⁸ Ibid., p. 2.

In reply, BC Hydro notes that the Phase 2 Review report is anticipated to be released in the spring. BC Hydro also notes that it will need sufficient time to consult with its stakeholders regarding the conclusions and directions from the Phase 2 Review report in order to develop pricing principles for the next Residential Rate Design Application. BC Hydro also submits that it plans to file a residential rate application in time for implementation on April 1, 2022 and will undertake meaningful consultation in the development of that application.¹⁹

Panel Determination

For the following reasons, the Panel approves BC Hydro's application to extend to March 31, 2022 the RIB rate pricing principles in RS 1101 and RS 1121, whereby the basic charge, Step-1 energy rate, and Step-2 energy rate would increase by the general rate increase as approved by the BCUC for Fiscal 2021 and Fiscal 2022.

The Panel notes that section 59(5) of the UCA states that a rate is “unjust” or “unreasonable” if the rate is “more than a fair and reasonable charge for service of the nature and quality provided by the utility” or “insufficient to yield a fair and reasonable compensation for the service provided by the utility.” In the Panel's view, once the current pricing principles expire on March 31, 2020, the RIB rate would not allow BC Hydro to recover its approved revenue requirement unless the current pricing principles are extended or a new pricing principle is put in place effective April 1, 2020. In the Panel's view, the scope of the Application is narrow because BC Hydro is only seeking approval of a pricing principle which would uniformly increase or decrease all three components of the residential rates by the amount of any approved general rate increase or decrease. In order to address parties' concerns regarding the RIB rate structure, such as whether it helps meet the Clean BC climate plan, requires a regulatory review in the context of a rate design application.

In the Panel's view, the development of a robust rate design application takes time, and thus providing BC Hydro with sufficient time to consult with stakeholders and compile evidence to develop its next residential rate design application is an important consideration. The Panel agrees with most of the parties that conclusions and directions from the Phase 2 Review should be considered when designing the residential rate structure. As such, in the Panel's view, there is little value in attempting to redesign the residential rate structure in the interim period prior to the release of the Phase 2 Review report or to accelerate a residential rate design application for implementation during the requested two-year extension period. The Panel notes that BC Hydro anticipates the Phase 2 Review report to be released in the spring and BC Hydro has indicated that it plans to file a residential rate application for implementation on April 1, 2022 based on consultation with its stakeholders regarding the conclusions and directions from the report. The Panel finds that this is a reasonable amount of time for BC Hydro to develop its next residential rate design application.

With respect to RDMW and Ecotrust Canada's respective submissions that the RIB rate structure results in households in rural and indigenous communities that have no access to natural gas subsidizing households that use fossil fuel as its primary heating fuel and that the RIB rate structure unduly discriminates against those customers in rural, remote, and Indigenous communities who have limited choices for housing stock and alternative energy sources, the Panel turns to the BCUC's conclusions in its 2017 report to the Government of BC on the impact of BC Hydro and FortisBC's RIB rates (BCUC RIB Rate Report).²⁰

In the BCUC RIB Rate Report, the BCUC concluded that there was no evidence to support the theory that the RIB rate causes people living in areas without access to natural gas to subsidize people living in areas which do have access to natural gas. The report noted that “[t]here is a ‘break-even point’ [...] above which the RIB rate bill is higher than the equivalent flat-rate bill, and below which the RIB rate bill will be lower. But this does not

¹⁹ Exhibit B-2, p. 2.

²⁰ British Columbia Utilities Commission (BCUC) Report to the Government of British Columbia on the Impact of BC Hydro and FortisBC's RIB Rates (RIB Rate Report), dated March 28, 2017.

constitute a subsidy, and neither is it unjust, unreasonable, unduly discriminatory or unduly preferential, the tests the Commission must use when setting rates.” The report goes on further to point out that “any customer who uses electricity for space heating and hot water will be likely to use more electricity than one who does not” and notes that “even in areas without access to natural gas, most customers would pay more under the flat rate than the RIB rate.”²¹

The Panel also shares the parties’ concerns that the circumstances and objectives of the RIB rate structure may no longer be applicable and should be redesigned in a reasonable amount of time. As such, the Panel would like to avoid delays in the development of a new residential rate design as much as possible. **Therefore, the Panel directs BC Hydro to file a report with the BCUC one year from the date of this order that discusses its progress regarding the development of its next residential rate design application and the anticipated filing date of that application. The report should also include details of its activities to date and its planned activities regarding the development of that application.**

²¹ Ibid., p. i.