

MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUE: FortisBC Residential Rates

III BACKGROUND:

FortisBC, an investor-owned utility, serves electricity customers in the Okanagan and West Kootenay regions as well as natural gas customers across the Province. As an investor-owned utility, FortisBC is regulated by the British Columbia Utilities Commission (BCUC), a regulatory agency of the Provincial Government that operates under and administers the *Utilities Commission Act*.

The BCUC approved a conservation rate structure for FortisBC's residential customers effective July 31, 2013. While Government was not involved in this decision, it was consistent with the previous decision, supported by Government policy set out in the 2007 Energy Plan, to approve a similar rate for BC Hydro residential customers in 2008, known as the Residential Inclining Block (RIB) rate.

FortisBC's Electric's Residential Conservation Rate (RCR) is similar in design and intent to BC Hydro's RIB rate. In both cases, customers pay a fixed daily charge to cover non-energy costs; pay a relatively lower rate for power they use below a certain threshold (this is referred to as Block 1 in the RCR) and a higher rate (Block 2), meant to send a price signal to encourage conservation, above this threshold. The rates are set so that, overall, the utilities do not collect more revenue than they would under a flat rate.

Fortis Electric Residential Conservation Rate Structure

Fixed Charge (per 60 days):	Block Size (for a 60 day period):	Block 1 Rate:	Block 2 Rate:
\$31.39	1,600 kilowatt hour (kWh)	9.411 c/kWh	14.017 c/kWh

All rates include a 3.5% interim rate increase. 2015 rates for FortisBC are not yet finalized.

The lower rate in the RCR is applied to the first 1,600 kWh of consumption (about 86% of the average FortisBC customer's consumption). Overall, 78% of RCR customers had consumption in Block 2 at least once between July 1, 2012 and June 30, 2014.

FortisBC's RCR was implemented towards the end of a long period of rate increases for residential customers. Since 2007, FortisBC rates for residential customers have increased nearly 50%. General rate increases alone account for a 44% increase.

Another factor in FortisBC's rate increases was rate rebalancing which increased residential rates nearly 7.5% between 2009 and 2013. These adjustments were required by the BCUC because commercial customers were charged more than it cost FortisBC to serve them, while residential customers were charged less.

FortisBC has completed reports on its RCR to the BCUC. These reports found that approximately 70% of FortisBC customers had lower bills under the RCR than they would have under the original flat rate, with nearly a third seeing bills at least 10% lower than under a flat rate. Less than 10% of customers had a bill increase due to the RCR¹ larger than 10%, while less than 1% had a bill increase of more than 20%. The largest effect on any customer was 27%. The 2014 report included survey results showing the average FortisBC customer with electric heat consumed 24% more electricity than the average customer without electric heat. The BCUC has not required any changes to the RCR as a result of these reports.

As of December 2014, the BCUC had received complaints about the RCR from a total of 254 people, of those, only 54 new customers complained in 2014. An online petition started by FortisBC ratepayers to return to a flat rate or create a larger block size for rural customers has received 445 signatures since January 5, 2015, although many of them are from regions that are not served by FortisBC.

IV DISCUSSION:

FortisBC customers have advanced a number of arguments against the RCR, which can be broadly summarized as follows:

- Homes (primarily rural) with electric heat are locked in to higher bills as a result of the RCR, even if they are efficient.
- The RCR's impacts amount to a subsidy from rural to urban customers and should be fixed by a higher step size or flat rate for rural customers.
- The rate is poorly designed and gives many customers an incentive to increase electricity use or to switch to allegedly harmful wood burning.

Based on these arguments, some FortisBC customers believe that Government should require the BCUC to change or eliminate the RCR. s. 13

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Bill impacts for FortisBC customers without access to natural gas are mixed

Even with the higher electricity consumption, survey data suggests that 65% of FortisBC customers with electric heat had lower annual bills under the RCR. However, approximately 50% of all surveyed customers with no access to natural gas had higher bills, while 70% of surveyed customers with heat pumps had higher bills.

16% of customers with electric heat, 18% of customers with no access to natural gas, and 24% of customers with heat pumps, saw bill increases of over 10% due to the RCR, while 2% or less saw bill impacts over 20%.

¹ Many customers would have had higher rate increases due to the general rate increases; these figures only address the difference in actual bills with the RCR and what they would have been with a flat rate.

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Two approaches have typically been suggested to reduce bills for rural customers: a larger first block for all rural customers (or customers without access to gas) to reduce their exposure to Block 2, or a flat rate. s.13

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Replacing the RCR with a flat rate would decrease bills for some customer groups that use a relatively large amount of electricity, but would increase bills for the approximately 70% of FortisBC customers who currently benefit from the RCR.

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The RCR is decreasing electricity use

Some RCR opponents have argued that the RCR is poorly designed. One claim is that, since most FortisBC customers have lower bills due to RCR, the rate does not create an incentive to decrease energy use for most customers. In fact, nearly 80% of FortisBC's customers at least occasionally pay the Block 2 rate, and so have the added incentive to reduce their electricity consumption even though their overall bills may be lower. On a net basis, FortisBC estimates that savings from the rate represent 2.6% to 3.3% of their total system energy, about twice the savings from their demand-side management programs.

FortisBC customers have noted that the Block 2 rate is above FortisBC's long-run marginal cost (LRMC) of energy s.13

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Housing types play an important role in energy use

The difference between the results for customers with electric heat in general and customers with heat pumps and/or no access to gas is likely due to housing type.

Apartments, condominiums, and townhouses may have access to natural gas but use electricity in urban or suburban areas, while single-family homes, which have higher energy use for any heating type, predominate in areas without natural gas and are more likely to have heat pumps. Bill impacts in single-family homes are also driven by factors other than heating system efficiency – square footage, appliances, insulation, family size, and windows can all play a role. A FortisBC survey of high-use customers confirmed that their homes were more likely to have characteristics that would be expected to lead to high consumption, such as swimming pools, hot tubs, and secondary suites, than other homes.

V CONCLUSION

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FortisBC and its rates are regulated by the BCUC.

- Many FortisBC customers are seeing higher bills due to rate increases not related to the RCR.
- Some customers do pay more under the RCR, but nearly 70% of FortisBC's customers pay less under this rate structure, on average, than they would have under a flat rate.
- The RCR is achieving its intended policy goal of reducing electricity use.
- FortisBC customers who are concerned about the residential rate should contact FortisBC first, and then the BCUC if they are not satisfied with FortisBC's response. Hearings may be initiated by the BCUC in response to a complaint by a customer or an affected third party.

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