

Comments Relating to Core Review of BCUC – June 2014

- a) Our experience with BCUC has been a positive one to date. We have found BCUC helpful in our rate design, prompt in their review of our submissions and professional in all of their dealings with our firm. We believe, based upon our experience, that BCUC has a core of talented professionals who can efficiently carry out the task of reviewing and regulating fairly, a broad range of simple to complex utility and utility like enterprises in the Province. While decisions of an organization such as the BCUC will be, by their nature, subject to political review, hopefully such review will be limited and only result in changes in exceptional circumstances.
- b) The current BC Hydro rates for energy supply and services are, for the most part, based on the postage stamp rate design. Effectively, the cost of electricity at any one location is not based on the cost of providing electricity to that location, but is averaged over all customers being served. As an example, the actual cost of electricity services to consumers in Revelstoke is less than providing electricity to consumers in Port Hardy. Consumers in both those communities, as in most communities in BC serviced by BC Hydro, pay the same rates for electricity services as a matter of policy. This policy provides consumers in remote communities, particularly those at great distance from the electricity production, a significant cost benefit. Other regulated sources of energy, such as natural gas and propane, which would normally be logical to these markets are avoided because the rates for these commodities is based on cost of service rather than a blended cost of services over the whole system. We do note that natural gas rates to Vancouver Island and the Sunshine Coast are moving to rates based upon a blended cost.

Solutions to this issue could be the pricing of electricity based upon the cost of service to the markets being served. This solution would not only be complicated but I suspect politically untenable. Another solution would be to average natural gas costs or propane costs across the same markets as those served by BC Hydro, thereby insuring similar public policy for those utility services as for BC Hydro. Without some change some utilities may cease to exist in the not too distant future because of BC Hydro's significant competitive advantage in remote markets.

This policy of pooling costs and charging communities with higher service costs a similar rate is not uncommon. BC Ferry Services rates on major routes are greater than the actual service costs and the surplus generated on those routes has been applied to smaller and remote routes to moderate their rates.

c) BC Ferry Services (BCFS) provides passenger and vehicle ferry service on an exclusive basis to most coastal communities in BC under the terms of the Coastal Ferry Contract with the BC Government. BC Ferries controls all the major ferry terminals up and down the coast, thereby making alternative competitive ferry service for most communities all but impossible. BC Ferry Commission is mandated to review and rule on ferry rates. The original vision for the current price cap model was a light handed approach to regulatory oversight. This limited review is undertaken by two Commissioners, one of whom is currently on secondment elsewhere, and the other operates on a part time basis. Input from the communities serviced by BC Ferries is very limited, both by BC Ferries, the Commissioners and the BC Government. While BC Ferry Commissioners are extremely competent, their mandate and resources are so limited that the communities' needs are perceived, by most communities, as not being reasonably met. The ferry customer, which, through the fare box, continues to pay the majority of all ferry costs does not have a reasonable avenue to influence services, expenditures and rates. Further, an independent review of capital expenditures and other costs needs to be made, given that BCFS's contract, in practice, has become a cost plus contract and not subject to normal commercial market forces. BCUC has the skills, and could access the resources, to be an effective regulator of BCFS to the benefit of the Province and the customers that BCFS serves. There may be synergies and efficiencies available by integrating the role of the BC Ferry Commission into the BCUC.

Respectfully submitted- June 11/14

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