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September 27, 2018

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC
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Attention: Mr. Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

**Re: FortisBC Inc. (FBC)
Project No. 3698820
Self-Generation Policy Stage II Application (the Application)
FBC Reply Submission**

In accordance with Commission Order G-140-18 setting out the remainder of the Regulatory Timetable for the review of the Application, attached please find FBC's Reply Submission.

If further information is required, please contact Corey Sinclair at 250-469-8038.

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

Attachment

cc (email only): Registered Parties

BRITISH COLUMBIA UTILITIES COMMISSION

**IN THE MATTER OF the *Utilities Commission Act*,
R.S.B.C. 1996, Chapter 473 (the “*Act*”)**

and

An Application by FortisBC Inc.

Self-Generation Policy Stage II Application

REPLY SUBMISSIONS OF

FORTISBC INC.

September 27, 2018

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PART One: INTRODUCTION

1. These are the reply submissions of FBC in the above noted matter. Final submissions were made by the following interveners: BC Hydro and Power Authority (BC Hydro), British Columbia Municipal Electrical Utilities (BCMEU), B.C. Sustainable Energy Association and Sierra Club of British Columbia (BCSEA), Commercial Energy Consumers Association of British Columbia (CEC), Zellstoff Celgar Limited Partnership (Celgar), and British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO). Capitalized terms used in this reply are as defined in the Company's final submission of August 16, 2018.

2. With the exception of Celgar, the submissions of most interveners are primarily concerned with the two drivers of the Application as described in the Company's final submission. These are, the opportunity sought by SG customers to sell power that would otherwise be used to serve their load, and Commission requirement that FBC's SG related rates include a recognition of the benefits and costs (in sum, the Net Benefits) that the presence of SG brings to the utility system and other FBC customers.

3. No intervener, aside from Celgar, has taken issue with the FBC characterization of these two factors as the primary drivers of the Application. Accordingly, this reply primarily addresses intervener submissions related to these points. To the extent that other points are made by the interveners on other topics but not directly addressed by FBC in reply, the Company's lack of response should not be taken as agreement with the points made. The submissions of BC Hydro and BCMEU have different perspectives that FBC will address in turn. FBC continues to rely on its submission of August 16, 2018 in support of the Self-Generation Policy (SGP) Application, as well as the evidence filed in this proceeding in response to intervener and Commission IRs and in the Application itself.

4. FBC believes that without the desire on the part of certain SG customers to make below-load sales, a significant portion of the SGP would not be under consideration, while the need to recognize Net Benefits in the context of future RS 37 customers may well still exist. While the Company's position on the final disposition of the restrictions contained in section 2.5 of the New PPA has been canvassed during this process, FBC has no indication that the Commission's views as articulated in the G-60-14

Decision have changed. As such, unless the Panel determines otherwise in this process, it may still be that one of the main drivers of this Application is the eventual removal of the Section 2.5 Restrictions.¹

5. The submissions of the interveners, with the exception of the diversions offered by Celgar, are thematically about the potential for the introduction of risk to other customers (whether of FBC or BC Hydro), the appropriateness of such risk, the magnitude of such risk, and whether or not the proposals of FBC serve to adequately define, quantify and ultimately mitigate against it. Risk, in this context, can be understood to mean the risk of rate increases relative to the level of rates that would exist without the various elements of the SGP in place. Absent such risk, interveners' opposition to any likely iteration of an SGP including the policy provided in the Application, would seemingly be faint or non-existent.

6. Further, it appears that there would be little concern on the part of interveners prompted by the application of the proposed SGP to either existing customers with new generation or new customers with new generation since, in both these cases, the generation would be considered "incremental" by any definition and there would be no increase in the historical purchase of embedded cost power by the customer. FBC acknowledges that in the Stage I Decision the Panel indicated that, "...it does not support a policy whereby all generation for a customer with new self-generation is determined to be incremental and available for export [...]In the Panel's view such a policy unfairly treats existing self-generation differently from new self-generation simply on the basis of when the investment in self-generation was made".² The proposed SGP would put existing generation and new generation on an equal footing since in either case at least 50 percent of the generation deemed to have been used to serve load will first be directed to plant load prior to any other use (such as third party sales).In the absence of the SGP, it is difficult to foresee how an SG customer could be prevented for selling 100 percent of its output, denying any of the benefit created by the ability to do so from being shared with other customers that have contributed to the system costs.

7. In the view of FBC, it remains the case that for existing customers with SG, it falls to the Commission to determine if it is appropriate to attempt to retroactively recognize the historical Net Benefits that existing SG resources have provided and to pass that benefit on to the SG customer on a shared basis. However, in that case, "sharing" would only mean that the SG customer does not get 100 percent of the benefit, which only serves to reduce the negative impact to other customers.

¹ Stage I Decision, Page 13.

² Stage I Decision, Page ii

8. It would appear then, as a practical matter, that the impact of the SGP that is the cause of concern for interveners arises from the proposed treatment of existing customers with existing self-generation: Celgar, Tolko and potentially the City of Nelson.

PART Two: SUBMISSIONS OF BC HYDRO

9. BC Hydro makes various points in its submission including about whether FBC has established that “its SGP Proposal is required”.

10. This is an odd submission on several grounds, including in light of BC Hydro’s status and traditional approach. In Exhibit C12-2 of the FBC 2009 RDA Process, BC Hydro had the following to say on the subject of FBC below-load sales to Celgar,

Contrary to Celgar's assertion that the effect of BCUC Order No. G-48-09 "was to restrict FortisBC's ability to sell electricity to Celgar while Celgar sells self-generated electricity that is not in excess of its load", FortisBC is not prevented from selling energy to Celgar if FortisBC wishes to use other resources to provide a service to its customers that allows a self-generating customer to serve its load while simultaneously selling an equivalent amount of energy to the market. The availability of such a service and the rate which would be applicable to such a service would be an issue between FortisBC and its customers.³

11. In accordance with this principle, it would be appropriate for BC Hydro to have restricted its comments in this process to addressing the likelihood that FBC will resource the increased load of an existing SG customer with power purchased under the FBC-BC Hydro PPA, and to whether FBC’s reliance on the Commission’s comments in the New PPA Decision reflects the intent of the Panel in that process.

12. Certainly it is appropriate for a utility such as BC Hydro to express concern regarding any situation that it considers may pose the risk of negative rate impacts for its customers. For its part, FBC has historically taken a similar position with regard to its own customers, including in respect of SG, as evidenced by the following response made by FBC to an information request during the *Zellstoff Celgar Limited Partnership Complaint Regarding the Failure of FortisBC Inc. and Celgar to Complete a General Service Agreement and FortisBC’s Application of Rate Schedule 31 Demand Charges* process,

³ In this same submission, BC Hydro also noted that, “The Celgar EPA established and defined a GBL for Celgar for its Castlegar facility consistent with the GBL methodology utilized for BC Hydro customers with self-generation who sell power to BC Hydro.”

The Company has in the past indicated a willingness to entertain the establishment of a GBL, but will not agree to one that may impose additional costs on the balance of its customers – a condition that Celgar has repeatedly rejected. (Exhibit B2-9 IR 14.2 Complaint) FortisBC does not object to the concept of a GBL for any customer with self-generation provided that the GBL does not result in the potential for a negative impact on the rest of the Company's customers. A GBL is a negotiated number that establishes the amount of a customer's load to be served by customer-owned generation. As such, the Company would not agree to a GBL that harmed other FortisBC customers unless directed to by the Commission. (Exhibit B2-10 IR 3.2)

13. This is still the basic position of FBC today. However, FBC's above-quoted information request response was submitted prior to the various regulatory processes that introduced and ultimately cemented the need to recognize the Net Benefits of self-generation, and to the issuance of the New PPA Decision where the Commission addressed the existence and magnitude of risk to BC Hydro's customers due to the activities of FBC self-generating customers.

14. The Commission carefully explored the issues related to section 2.5 of the Power Purchase Agreement dated May 21, 2013 (as abbreviated above, the New PPA) in the nearly year-long process leading to Order G-60-14. In addition, in its decision, the Panel specifically expressed its hope that "once these undertakings have resulted in well documented Commission-approved principles, the Commission will seek submissions from parties to determine whether it would be reasonable to eventually remove the restrictions from section 2.5 of the New PPA" (p. iv). The Commission did not posit that the undertakings would result in well documented principles that were approved not only by the Commission, but also by BC Hydro, and indeed BC Hydro should not have a veto over FBC policy. The FBC SGP is well documented, clear, and provides the certainty and clarity that the Commission desired it to impart to SG customers.

15. Further, if the Panel determines that the historical reduction in the load that has been served by FBC due to the presence of SG has provided a benefit to FBC and its customers, the same must be true for BC Hydro and its customers.

16. Beyond addressing the topic of prospective harm to its customers, BC Hydro has made submissions asserting that:

- FortisBC has not demonstrated its SGP proposal as set out in the FortisBC Application is required⁴;
- FortisBC's SGP proposal does not comply with the BCUC's Stage 1 Decision requirement to set the SSO at the self-generating customer's normal historical level for self-supply for idle generation⁵;
- FortisBC has not provided analysis or quantification of the risks associated with its SGP proposal, nor of alternative, lower risk means that might be available⁶; and
- the assumptions regarding FBCs potential use of the PPA in support of SG exports have proven to be incorrect.⁷

17. BC Hydro has also provided other commentary in its submissions that FBC may not agree with, but has not specifically addressed in reply since the points are not substantive or material to this proceeding. For example, BC Hydro concludes in paragraph 10 of its submission that the, "...SGP proposal is not required to enable self-generators to use the FortisBC Open Access Transmission Tariff (OATT) on the same basis as any other generator." This fact has not been contested by any party to the process and is not at issue in the SGP.

18. Turning to the first bullet point listed above regarding the necessity of a FBC SGP, the Company has indicated through IR responses that there is not an inherent "problem" with existing SG policies that needs to be addressed. The Commission plainly recognized the regulatory impetus and requirement for the SGP Application in BCUC IR 2.6.1:

6.1 Notwithstanding a requirement to file a SGP Stage II Application originating from Order G-60-14 and Decision, please clearly articulate:

- i. the issue(s)/problem(s) which need to be addressed by the FBC SGP;
- ii. how the FBC SGP solves the issue(s)/problem(s) identified; and
- iii. whether there are remaining issue(s)/problem(s) that are not solved by the FBC SGP. [underlining added]

⁴ BC Hydro Final Submission, Paragraph 7.

⁵ Ibid, Paragraph 13.

⁶ Ibid, Paragraph 16.

⁷ Ibid, Paragraph 22.

19. Clearly, FBC was at the very least required by the Commission to file an SGP Application. However, as noted in FBC's response to BCUC IR 2.6.1, from the perspective of FBC there exists no "problem" that prevents the Company from providing service to self-generating customers without changes to existing self-generation policies and related rates.

20. Further, FBC expects that neither future customers nor existing customers with **future self-generation** will be problematic under the current policies, or the policies contained in that proposed SGP. No intervener seems to have an issue with the treatment of new load or generation that is incremental to that which would otherwise exist at the time such generation was added.

21. However, from the perspective of existing FBC customers with existing SG, issues have arisen regarding the recognition of the Net Benefits that the SG may have provided to other FBC customers, and with the perceived right of the SG customer to determine the disposition of the returns on the investment in SG that the customer has made.

22. In the case of Celgar, the Commission has made determinations in previous proceedings regarding the historic Net Benefits provided by Celgar's SG (which FBC continues to believe are speculative). In the Stage IV Decision in the Stepped and Stand-by Rate process, the Panel found that,

- The benefits for self-generation are to be reflected through the SBBB as they are not reflected through the other components of RS 37 as suggested by FortisBC.
- There may be benefits that Celgar's self-generation has provided, and continues to provide, to FortisBC and other ratepayers but those benefits cannot readily or directly be translated into a formula that results in a specific SBBB for Celgar.
- Based on the above, it is evident that there is no mathematically perfect or correct answer to setting the SBBB for Celgar. Given the circumstances, the Panel endeavours to set a SBBB such that it does not inadvertently either restrict the growth of cost-effective distributed generation, or promote uneconomic bypass while resulting in a fair contribution to the sunk costs of the utility's network.
- Accordingly, the Panel determines that Celgar's SBBB will be based on 40 percent of SBDL and that this does not lead to a rate that is unjust, unreasonable, unduly discriminatory or unduly preferential. On this basis Celgar's SBBB is set at 16.8 MVA.

23. Based on these determinations, it is clear that the reduced SBBB provided to Celgar by the Commission reflects past Net Benefits (at least for the period back to March of 2011 to which billing on the Stand-by Rate was retroactively applied) and Net Benefits going forward.

24. BC Hydro also argues that FBC has not provided evidence in this proceeding demonstrating that its SGP proposal is required and/or “the most effective means for addressing issues”.⁸ FBC does not agree, but in any case contends that determinations in this regard are the very reason to have the regulatory process which is currently under way.

25. With regard to BC Hydro’s argument summarized in the second bullet in paragraph 16, above, BC Hydro relies on the graphic from Table 3-1 of the Application as an indication that FBC admits that its SGP proposal does not comply with the BCUC’s Stage 1 Decision requirement to set the SSO at the SG customer’s normal historical level for self-supply for idle generation. However, BC Hydro has taken this graphic out of context. The reason it indicates a lack of compliance on this point is not because the setting of the SSO is not done with reference to previous levels of self-supply (which it is), but because it does not include a definition of idle generation as specified in the parentheses.

26. With respect to the BC Hydro complaint that FBC has not provided analysis or quantification of the risks associated with its SGP proposal, it is entirely reasonable to refrain from speculating on the potential impact of SG exports given that any impact would be highly dependent on the amount of additional load it must serve and the cost of replacement resources. This is particularly true given that the Commission has already assessed the level of that risk to be extremely low. For its part, BC Hydro has provided absolutely no analysis or quantification of the harm it contends may befall its customers as a result of the SGP. It has raised no real issue for concern or further consideration, let alone a sufficient evidentiary basis for reversing the Commission’s prior determination regarding the low level of risk to BC Hydro’s customers.

27. Further, in attempting to support its argument in this regard,, BC Hydro has selectively noted portions of FBC’s IR responses. For example, at para. 18 of its submissions, BC Hydro refers to the response to BC Hydro IR 1.1.6 where FBC stated in part that “no detailed analysis” was required to support the conclusion that the SGP will not unreasonably impact other customers. However, the

⁸ BC Hydro Final Submission, paragraph 5

subsequent part of that IR response, which BC Hydro omitted in its submissions, went on to provide a substantive example of SG customer circumstances demonstrating why this is the case.

28. In any case, FBC has provided extensive evidence of its expectations regarding the use of New PPA power over the planning horizon, particularly in response to BCUC IRs 2.8.1 through 2.8.3. If BC Hydro has an expectation that FBC would quantify the risk or potential rate impact to the customers of BC Hydro then FBC contends that such an expectation is not reasonable. BC Hydro has had an opportunity to do so in this process and has not.

29. With regard to the assertions made regarding use of the PPA in paragraph 22 of its submission, BC Hydro, with respect, misses the point and the impact that low market prices have on the resourcing decisions at FBC. That is, BC Hydro suggests that under conditions of low market prices, FBC will increase market purchases and create room under the PPA cap, without also recognizing that there would be no reason for FBC to utilize that room. A correct risk assessment would conclude that the only time of concern is under high market prices and under that scenario, FBC low priced market purchases disappear, replaced by BC Hydro purchases to meet existing load. There will be little to no room to increase BC Hydro purchases under high market prices. Therefore, the Commission Decision in G-60-14 remains relevant today.

30. Finally, FBC considers that the position of BC Hydro with respect to the potential for harm to its customers is at its best somewhat fluid. In its submission to the Commission regarding the Zellstoff-Celgar Limited Partnership Application for Reconsideration and Variance of British Columbia Utilities Commission Order No. G-60-14 and Decision, BC Hydro made the case that Celgar was, "...arguing the alleged errors [in the Commission Decision] give rise to two implications: (1) imposition of a unique "net-of-load" standard on Celgar for an interim period, and (2) imposition on FortisBC's self-generating customers of undefined BC Hydro Guidelines and Customer Baseline Restrictions."

31. BC Hydro argued the reconsideration application should not progress because the imposition of these factors on Celgar (if accepted) resulted in no significant material implications. Contrary to this prior position, BC Hydro now argues that removing these restrictions introduces a risk of harm to BC Hydro customers that is material enough to warrant it taking a position that the FBC SGP Application should be dismissed.

32. Beyond an assertion that service to FBC customers pursuant to the proposed SGP presents a conceptual risk of harm (a circumstance that FBC has not disputed), BC Hydro has failed to demonstrate or quantify that such a risk is likely or material, and has not presented any compelling evidence to counter the conclusion of FBC and the G-60-14 Decision that it is not.

PART Three: SUBMISSIONS OF CEC

33. The CEC concludes its submission with two recommendations to the Commission:

- First, CEC recommends that the Commission deny the FBC SSO proposal because in its view the proposal introduces unacceptable risks to ratepayers. With regard to this recommendation, FBC notes that the SSO is not necessarily or automatically reduced (as CEC appears to contend) to 50 percent of the SG customers' historic Annual Generation Used to Serve Load, and may be higher. However, FBC assumes that this correction would not alter the CEC position on the matter.
- Second, the CEC does not believe that the Commission should modify the PPA without allowing for any other aspects to be reviewed. The CEC recommends that the Commission retain the PPA as contracted until such time as it expires or a new proceeding addresses the issue with the opportunity for a full review.

34. FBC appreciates the CEC submission that the utility has been placed in a difficult situation by the recent Commission determinations⁹; however CEC does not seem willing to accept that resolution of the difficulty will require some amount of risk, however small, to be present. For future SG installations, the benefit to customers is perhaps easier to see. For existing customers and SG, as long as historic benefits are a consideration, the risk/benefit picture is not as clear and understandably a greater source of customer consternation.

35. In paragraph 3 of its submission, CEC notes,

The CEC submits that it would be preferable for FBC to continue to require self-generating customers to offset their Annual Generation Used to Serve Load prior to taking energy from the utility and prior to sharing 'Net Benefits'.

⁹ CEC Final Submission, paragraph 1.

36. FBC's view is that this preference on the part of CEC actually reflects what FBC has proposed. That is, Section 5 of the SSO Guidelines specifies that, "The Self-Supply Obligation of any Eligible Customer will be equal to Annual Generation Used to Serve Load, as determined below, then divided by 8760 as the number of hours in 365 days. The result is rounded to the nearest MW and multiplied by a value, as specified by the customer, of between 0 percent and 50 percent in recognition of the sharing of the net-benefits of self-generation."

37. The CEC, as opposed to Celgar, recognize that the SSO determination, "...removes the Net of Load construct..." for customers that choose this option.¹⁰

38. Read in its entirety, the CEC submission indicates a position of discomfort due to the existence of an uncertain and unacceptable level of risk to FBC customers due to uncertain or unquantifiable (or dubious) Net Benefits of self-generation that must be shared between all customers and the self-generator.

39. FBC is concerned that CEC's position is founded upon some misconceptions that may have influenced its recommendations.

40. In paragraph 71 of its submissions, CEC notes that, "...there are likely no substantive quantifiable benefits available to the utility above the NOL baseline". It should be understood that the Net Benefits under consideration are assumed due to the presence of self-generation and in relation to load displacement, that is, under the NOL baseline. Also, CEC describes an opportunity cost for FBC related to energy being supplied to the self-generator selling into market assuming that the energy could presumably be more cost effectively sold into market by FBC. However, as a utility with FBC-owned resources that are not sufficient to meet its entire load, this is not an opportunity that should be taken into consideration.

41. While CEC maintains that the risk inherent in the FBC proposal is "not well quantified"¹¹, it also describes the risk as "considerable"¹² and "unacceptable"¹³.

¹⁰ CEC Final Submission, paragraph 39.

¹¹ Ibid, paragraph 40.

¹² Ibid, paragraph 46.

¹³ Ibid, paragraph 122.

42. CEC notes, "...that the 50% factor provides some partial mitigation to the increased risks of 100% that accrue to the utility from removing the NOL construct".¹⁴ This is consistent with the outcome that FBC intended the SGP to produce as it is a matter of balancing the competing interests resulting from the recognition of historical Net Benefits of SG.

PART Four: SUBMISSIONS OF BCOAPO

43. BCOAPO supports the FBC SGP, including its main components, the SSO and SBBB Reduction subject to a number of comments, concerns and clarifications contained in its submissions.

44. In arriving at its conclusion, BCOAPO acknowledges that in the Stage I Decision the Commission indicated that it "supports a policy that allows customers to export self-generated electricity, as long as the risk to other ratepayers due to differences between the regulated rates and the contract price or market price is mitigated", and that based on certain previous Commission Decisions, this would include the sale of "below load" power. BCOAPO also notes that the Stage I Decision also provided certain directions as to how such "mitigation" should be achieved.¹⁵

45. BCOAPO agrees that, given the various decisions that have been issued by the Commission, further clarification from the BCUC as to whether sale of below load power to third parties by self-generators is permissible (with adequate mitigation) would be helpful. However, BCOAPO submits that FBC's approach to mitigating the risk to other ratepayers is consistent with the BCUC's Stage I Decision.

46. FBC will address BCOAPO's comments, concerns and clarifications in this section. These are:

A. QUESTIONS REGARDING ELIGIBILITY FOR THE VARIOUS ASPECTS OF THE SGP (PAGES 4-5)

47. BCOAPO notes that it is possible (though, FBC notes, it is not likely as BCOAPO also suggests) for RS 21 and RS 23A customers to be served as a primary voltage. This can be the case if such a customer owns the transformation from primary to secondary voltage. However, with regards to the treatment of an RS 21 or RS 23 customer that supplies its own primary transformation and installs self-generation, such a customer would not be able to export SG power pursuant to an SSO since RS 21 and RS 23

¹⁴ Ibid, paragraph 72.

¹⁵ BCOAPO Final Submission, page 13.

customers are not Eligible Customers for the purposes of Tariff Supplement 7 and have no ability to use the FBC transmission system.

48. Such a customer would be able to partake in the FBC Stand-by rate for primary customers at such a time as the revisions to the eligibility for stand-by service is revised as discussed in the Application.

49. Such a customer would not be eligible to have its SBBB reduced unless its generation came from a clean and renewable resource.

50. All of the above points can be incorporated expressly into the final versions of the SGP related documents if not otherwise clear.

B. GAINING APPROVAL OF A PRIMARY WHEELING TARIFF (PAGE 7)

51. BCOAPO submits that if the SGP is to be extended to customers served at primary voltages then priority should be given to not only extending the Stand-by Rate (RS 37) to such customers but also to putting in place a Commission-approved applicable primary wheeling tariff.

52. FBC confirms that a primary wheeling tariff forms part of the proposals under consideration in its 2017 COSA and RDA that is currently before the Commission in a separate proceeding.

C. TREATMENT OF UNSCHEDULED DELIVERIES TO THE FBC SYSTEM (PAGES 8-9)

53. BCOAPO submits that the different approaches in regards to unscheduled delivery compensation depending upon whether the customer is serviced pursuant to an SSO or on a Net-of-Load basis is unwarranted. BCOAPO also submits that provisions as set out in the Wholesale Wheeling Tariff (RS 106) for recognizing and compensating nominal positive imbalances (excess deliveries to the FBC system) but not compensating material imbalances is appropriate.

54. BCOAPO further submits that for negative imbalances where the customer does not have sufficient generation to cover its export sales, FBC should not be accountable for making up such differences, but if it is the charges should be higher than those in RS 106 to reinforce the need/expectation self-generation customers meet their self-supply obligations and contractual third party commitments with their own generation.

55. FBC appreciates BCOAPO drawing attention to the matter of the inconsistency of payments for positive imbalance. FBC agrees that for all energy above the general NOL level or the SSO that is absorbed into the FBC system, RS 106 should apply.

56. FBC appreciates BCOAPO's concern that self-generators take the appropriate steps to match their generation to their load and export schedules—particularly to avoid a generation shortfall. However, FBC believes that RS 106 adequately protects other customers for both positive and negative imbalances that may be incurred by SG customers and that no additional charges for negative imbalances are required.

D. QUESTIONS REGARDING THE ESTABLISHMENT OF AN INITIAL SSO FOR NEW OR EXISTING CUSTOMERS WITH NEW SELF-GENERATION (PAGE 15)

57. FBC does not agree that the difficulty envisioned by BCOAPO will arise. This is because the Annual Generation Used to Serve Load is initially agreed upon between the customer and the Company with reference to the nameplate capacity of all connected generating facilities and adjusted by a reasonable capacity factor. This provision assumes that NOL is the default condition and 100 percent of the generation would have been used to serve load. The Obligation to Purchase does not impose a limit on generation as described in the BCOAPO submission, and FBC does not view it as problematic to include all generation (including output sold to third parties) in an assessment of whether or not the initial estimate of generation capability was accurate. The key consideration is that the assessment of generating capability is proper. If the assessment concludes that there is additional generation available above the original estimate, the SSO could be adjusted. It would certainly be a workable alternative to require three years of NOL service prior to establishing an SSO, but this could reduce the economic case for the installation of generation and be subject to gaming by the customer in order to establish a low SSO from the outset.

E. THE OPPORTUNITY FOR SG CUSTOMERS TO CHOOSE EITHER AN SSO OR SBBD REDUCTION (PAGE 17)

58. FBC understands the position of BCOAPO but does not agree with it. The impact of the recognition of the Net Benefits on other customers is effectively capped at that provided by either the SSO or SBBD reductions. With Commission approval of either methodology, the impact would be deemed to be acceptable and in the opinion of FBC the customer should retain the choice as to which

best suits its particular circumstance. BCOAPO has not suggested how the choice would otherwise be made.

F. VALUATION FOR LRMC INCLUDED IN THE SBBB REDUCTION CALCULATION (PAGE 19)

59. At page 18 of its submission, the BCOAPO concludes that the process suggested by FBC for establishing the Net Benefits that will be shared between the customer with self-generation and FBC's other ratepayers is reasonable. However, the BCOAPO also notes that given the Commission's rejection of the LTERP beyond 2024 in its decision regarding the 2016 LTERP Application, it is unclear as to what should be the underlying basis for avoided cost in the SBBB determination. The BCOAPO requests clarification of what value for LRMC FBC proposes to use for SBBB determinations within the SGP.

60. BCOAPO notes that FBC has provided two updated values for its LRMC depending on whether or not the energy supply avoided can reasonably be expected to occur over the peak hours during each month of the year within the planning horizon. The Company considers that the self-generation of a customer has a reasonable likelihood of being online at the time of the system peak and therefore the higher value (\$87 per MWh based on Utility Cost (UC)) is appropriate.

61. The Company notes, however, that the appropriate time to establish a value for LRMC is during the resource planning process. Therefore, given the BCUC decision in respect of the 2016 LTERP, this LRMC value should be viewed as an interim measure, applicable only to the SGP, and likely to persist only until a LRMC value is accepted in a future Commission process.

G. SSO DETERMINATION AND VARYING THE NET BENEFITS SHARING FACTOR IN SETTING THE FINAL SSO (PAGES 21-22)

62. At page 21 of its submission BCOAPO points out an error in the language used in the SSO Guidelines for the determination of the initial SSO. FBC accepts the correction as suggested. The intent of the revision is that the SG customer can elect to meet between 50 percent and 100 percent of its historical load served by SG.

63. BCOAPO also notes that under certain market conditions, where the cost of the power sourced to serve the increased SG load exceeds the embedded cost tariff rate for supply to the customer, the negative impact to other customers would increase. FBC acknowledges that this is the case. However, FBC does not agree with the BCOAPO contention that in these circumstances the SSO of the customer

should increase to reduce the risk. It would be inequitable for other customers to limit risk in this manner after having benefitted without a reciprocal arrangement that allowed the SG customer to reduce its SSO when the inverse market conditions exist. If one accepts the premise that the 50 percent sharing factor is a “workable and practical approach” as BCOAPO has stated, then it should be permitted to persist under all circumstances.

64. FBC notes that the BCOAPO is an organization that has historically positioned itself as concerned with the potential for rate impacts to negatively affect those customers that can least manage rate increases, and is without a particular industry or issue focus beyond this view. For this reason, FBC believes that the BCOAPO acceptance of both the SSO and the SBBB reduction methodologies should receive considerable weight from the Commission.

PART Five: SUBMISSIONS OF BCMEU

65. The submission of the BCMEU seeks two outcomes in the SGP. First is the extension of eligibility for the specific programs contained in the SGP Application to wholesale customers, and second, a request regarding unscheduled deliveries to the FBC system.

66. With regard to the first point, the BCMEU approach is to rely on the language in previous Commission decisions and FBC submissions to support a contention that the eligibility of Wholesale customers has been predetermined and clear.

67. FBC does not agree. The Company submits that if, “Self-generation of wholesale customers clearly meets the eligibility intent of the commission panel” as asserted by the BCMEU, the Commission would likely have clearly indicated that this was the case rather than soliciting submissions on the matter.

68. The BCMEU notes that FBC has stated that it, “...indicates that SGP would apply to all current and future customers that meet SGP eligibility requirements.” It goes on to conclude that, since the wholesale customers are current customers, it follows that they are “therefore included”. However, this leap in logic ignores the condition contained in the statement - *that meet SGP eligibility requirements*. Being a current customer is not the only condition required for eligibility, and following the BCMEU logic would not allow the exclusion of any customer.

69. Selectively utilizing these excerpts in this manner results in no determinative conclusions. This is especially the case given the discussion provided by FBC in its response to BCUC IR 2.9.4.

70. FBC remains of the position that the determinations in this process cannot simply be extended to wholesale customers without an exploration of the implications this may entail. Wholesale customers are not the same as end-use customers. Wholesale customers are not solely end-use customers. They are also utilities and it is unclear to FBC whether access to the provisions contained in the SGP for the wholesale customers is in the public interest.

71. FBC has examined the second matter addressed by the BCMEU and cannot discern the any practical impact that such a revision would provide. The BCMEU requests that, “The self-generation policies starting on page 9 of the application should be amended to include the text of item 6.3 [of the SGP] in its entirety, quoted below for clarity.”

72. It is unclear what retroactively amending the Application to contain the language of Section 6.3 of the SGP would accomplish. While FBC has only requested approval of the SSO Guidelines and the SBBB Reduction methodology, the SGP document is the other set of guiding principles that SG customers can rely upon for a clear picture of the treatment of SG in the FBC service area. Section 6.3 forms part of the SGP.

PART Six: SUBMISSIONS OF BCSEA

73. As part of paragraph 6 of its submissions, and the related footnote #3, BCSEA requests clarification of the specific approvals sought by FBC as part of the SGP process. FBC confirms that the approvals it explicitly seeks are those contained in the Draft Order that accompanied the Application¹⁶. Specifically,

- The Self-Supply Obligations (SSO) Guidelines are approved. FBC is directed to file, confidentially, the customer data supporting the calculation of each customer’s SSO for approval by the Commission, within 30 days once an SSO has been agreed upon with the customer.

¹⁶ Item #2 updated per the response to Celgar IR 1.5.10.

- The use of Stand-by Billing Demand (SBBD) is approved, with the adjustments proposed in the Application, for any future customer that will not be making third party sales, or will do so only after having offset its load, to receive a share of the net-benefits attributable to its self-generation.

74. In addition, given that the Commission caused the SGP document envisioned by item 3 of the Draft Order to be filed pursuant to IR 1.1 in the current process, FBC considers that the Commission could approve the SGP document itself if it deems it appropriate to do so. However, FBC is also of the view that the Commission may elect to view the SGP as not unlike a business practice and could therefore not approve the SGP document for the reasons discussed in its decision dated June 20, 2005, regarding British Columbia Transmission Corporation's application for an OATT. The Commission held,

The Commission Panel acknowledges the dilemma surrounding the distinction between tariff and business practices. The tariff has to be open, transparent and sufficiently specific yet flexible at the same time. The utility should endeavour to put as much specificity in the tariff as practicable, without being so prescriptive or complex that the tariff becomes incomprehensible or otherwise unworkable. While a very rigid tariff would ensure consistency in treatment among customers, the utility needs to have authority and latitude to make decisions regarding implementation of the tariff and the appropriate business practices to do so. Furthermore, tariff setting and business practices development should be viewed as an ongoing process, especially in an environment where the industry and, therefore, the tariff is evolving.

The Commission Panel reaffirms that the tariff must be approved by the regulator while the business practices need not be. The Commission Panel recommends that, if in doubt, the utility should include the provision in the tariff. Business then provide further clarity as to how the tariff rules will be implemented.¹⁷

75. One of the Key Points raised by BCSEA in its final submissions is a purported lack of statutory authority being put forward for the SGP Application. In BCSEA's view, "it is problematic that no section of the UCA has been cited as the statutory authority for the Commission to approve the application that FBC has been required to make".¹⁸ BCSEA's submission overlooks the Commission's Stage I Decision, which specifically reviewed applicable legislation for the SGP Application, including the *Clean Energy Act* and the *Utilities Commission Act* (UCA). The Panel noted, at page 11 of its decision, that it would "take into consideration section 59(1)(a) of the UCA, which prohibits a utility from having a rate that is unjust, unreasonable, unduly discriminatory or unduly preferential. The SGP affects rates, therefore any rate

¹⁷ This discussion noted in the BC Hydro response to Celgar IR 1.2.1 in the FortisBC 2017 Cost of Service Analysis and Rate Design Application process, Exhibit C1-5.

¹⁸ BCSEA Final Submissions, para. 12

that flows from it would have to be in compliance with the UCA in order to be approved by the Commission”.

76. FBC also addressed relevant legislative requirements for the SGP Application at paragraphs 43-45 of its Final Submissions. FBC’s submissions reflected the Commission’s recognition in the Stage I Decision that the SGP constitutes a “rate” within the meaning of the UCA and that, accordingly, the general legal principles applicable to rates and rate-setting set out in ss. 59-60 of the UCA apply to the Commission’s adjudication of the Application. These UCA provisions also provide the statutory authority for the order FBC seeks in this proceeding.

77. As a form of rate, the overriding legal consideration in respect of the SGP Application is whether the policy put forward by FBC is “just and reasonable”, which includes among other things, consideration of whether it results in FBC receiving fair and reasonable compensation for the services provided. These are the ultimate legal issues to which the evidence and submissions of FBC are directed in this proceeding. FBC submits that a review of the broad considerations advanced in this proceeding and the balancing of interests being addressed by FBC leads to a conclusion that the SGP put forward is just and reasonable and should be approved.

PART Seven: SUBMISSIONS OF CELGAR

78. The submissions of Celgar seek to breathe life back into certain topic areas that FBC and other interveners have largely moved beyond in favour of addressing the practical application and implications of the FBC SGP. Matters related to the default NOL service, obligation to serve, definition of arbitrage, the setting of provincial policy, and whether service to BC Hydro customers in the BC Hydro service area is relevant have been adequately covered and the related issues resolved to the point where they no longer cloud or prevent final determinations in this process. No other intervener has given these subjects more than a passing mention in final submissions.

79. Contrary to Celgar’s assertion that FBC has an, “...unwillingness to ‘let go’ of concerns about ‘arbitrage’”, the Company only speaks in terms of the mitigation of harm in its Stage II Application, and has supported the use of the alternate phraseology throughout its submissions subsequent to the Stage I Decision, including in its IR responses.

80. FBC only referenced the term “arbitrage” in its Final Submission in reference to previous Commission Decisions that included the term. The Commission noted in the Stage I Decision that it agrees that the key issue with regard to the purchase and sale of electricity by a customer with self-generation is whether such activities are beneficial, detrimental or neutral as far as their impact on other ratepayers. The Commission also noted that in the context of BC Hydro and G-38-01, “...However, as long as this 'arbitrage' was not to the detriment of other rate payers it was not considered to be 'arbitrage'”.

81. FBC and other interveners are less concerned with defining terms than with having a principled discussion regarding the underlying transactions that are evidently a cause for concern. The determinations sought by FBC involve whether or not the purchase and sale of electricity by a customer with SG has a potential outcome that is detrimental to other ratepayers relative to the case where no such activity is taking place, and whether that is acceptable. In the Stage I Decision, the Panel correctly pointed out that the sharing of benefits between the self-generating customer of BC Hydro and its other customers was possible because operating otherwise idle SG would free up BC Hydro resources for export by Powerex. FBC does not have this opportunity and therefore the benefits available to be shared are much less certain or identifiable.

82. There exists a stark reality in this process. The three SG customers on the FBC system are served on a NOL basis. Order G-48-09 formalized the NOL construct as the only available mode of service; however, prior to 2009, the SG customers were also served on a NOL basis and always have been. It was an attempt to vary from this practice that prompted the G-48-09 process and revisions to the BC Hydro PPA that existed at the time.

83. Any FBC SGP that results in one of these current SG customers obtaining the right to export power that would otherwise be used to serve load in an NOL environment has the potential to increase the amount of embedded cost supply provided by FBC. This is true of the proposed SSO methodology and any other available alternative. The current suite of rate options available to SG customers, and the level of those rates, were set under the *status quo* NOL reality. Therefore, any recognition of those benefits will, relative to the *status quo*, result in a shift of revenue from the SG customers to other customers. This is true of the recently approved stand-by rate RS37. This included a Commission determination that the SBBB for Celgar would be reduced at least in part due to the fact that stand-by

service differed from service under the standard tariff rate, despite the fact that the only actual change in service to Celgar has been the manner in which it is billed.

84. The submissions of Celgar are rife with unsubstantiated assertions and consideration of the irrelevant. Celgar is an SG customer that has already agreed to an SSO formulated in a manner consistent with the SSO Guidelines that are a fundamental aspect of the SGP, but nevertheless advocates for denial of the SGP on the basis it does not provide incentives, nor remove economic barriers to self-generation development nor encourage self-generation development in the FBC service area¹⁹.

85. Further, Celgar asserts that the SBBB reduction is not an incentive for self-generation and is in fact a barrier to self-generation in the FBC service area. This despite the fact that Celgar has accepted a 40 percent reduction in its SBBB, which the Commission has stated recognizes the historical and ongoing benefits that the Celgar generation provides.

86. FBC has not filed the SGP, as Celgar claims, in order to dictate the use of customers' self-generation. FBC has not insisted that the benefits of self-generation investments should accrue to other customers because it is necessary to ensure that self-generation customers do not arbitrage. FBC has not "disguised" its request for clarification on the acceptability of risk to other customer due to an, "...unwillingness to accept the Commission decision."

87. Celgar continues to argue for the removal of the "NOL Construct", but has not described what would exist in the absence of NOL as the default for service. It does conclude that, "From the perspective of a self-generation customer an SSO is preferable to NOL."²⁰ This at least acknowledges that an SSO and NOL do not exist at the same time and are alternatives to each other.

88. FBC does not agree with Celgar that in the BC Hydro service area the default for a customer with no GBL is not net-of-load.²¹ If, what Celgar is alluding to without explicitly stating, is that in the absence of both a SSO methodology and NOL service, there is a third option where a SG customer has 100 percent flexibility to determine the use of its generation output, including selling it 100 percent to a third party while serving its entire load with embedded-cost utility service, then FBC does not believe that any party, except Celgar, is accepting of that premise.

¹⁹ Paragraph 14.

²⁰ Paragraph 13.

²¹ Paragraph 21.

89. Given that the Commission has already made a determination regarding the concept of NOL service as repeated by Celgar in paragraph 27 of its submission, FBC agrees with Celgar that the Commission need make no findings relevant to whether NOL is the default construct as part of this process.

90. With regard to the alternate SSO determination described in paragraph 32 of the Celgar submission, which it says, “...matches the self-generation customers’ requirements to self-supply with those of FortisBC to self-supply...”, the Company does not understand this methodology. On the face of it, Celgar seems to be suggesting that in concept the SSO should be set close to 100 percent. FBC notes that it will generally manage its own energy resources such that there is no seasonal surplus prior to contracting for and purchasing additional sources of energy such as from the PPA. FBC does not believe that final submissions are the appropriate venue for advancing completely new concepts into the regulatory process that cannot be tested or further explored. The Commission should not give consideration to this eleventh-hour proposal.

91. With regard to Section G of the Celgar submission, FBC has no objection to the various insertions of, “agreed to by the customer” throughout the SSO Guidelines. FBC does not view any of the other additions, edits, or deletions suggested by Celgar to be necessary.

92. With regard to the setting of the SSO and SBBB, and the relationship between them, Celgar provides no reference for its assertion that FBC suggests that the sharing of benefits of self-generation between the SBBB and the SSO are somehow linked. Further, it is not clear what Celgar means when it concludes that FBC has said that the SBBB should be “adjusted by the SSO”.

93. For clarity, FBC believes that it is appropriate that a customer should be able to have either a SSO, or a reduced SBBB, but not both. This is because both of these methodologies are intended to be set including the entirety of the assumed Net Benefits.

94. FBC has not applied as part of this process for any changes to the existing SBBB reduction that features in service to Celgar, but has requested that the Commission provide clarity on whether Celgar should be able to take service pursuant to both a SBBB reduction and SSO at the same time.

PART Eight: CONCLUSION

95. As with any rate design process, the SGP involves a balancing of interests and objectives between various customer groups. In the case where existing customers with SG currently served on a NOL basis are provided a share of historical and ongoing presumed Net Benefits of SG, other customers may, under certain circumstances, bear a risk of increased rates. The evidence in this process is that these circumstances are unlikely to exist for the foreseeable future.

96. FBC has approached the SGP from the understanding that the recognition of Net Benefits of SG is a requirement of previous Commission determinations. Under this assumption it is the case that the benefit provided to existing SG customers must come at the expense of other customers.

97. It is the position of most interveners that the risk that this presents to other customers is unacceptable.

98. It is the position of the BCOAPO that the proposed FBC SGP is a reasonable solution to the sharing of risk and it supports the SGP subject to a number of comments and considerations.

99. It is the position of BC Hydro that the mode of service to SG customers within the FBC area should be at the discretion of FBC, with the caveat that the FBC SGP have no potential for impact on BC Hydro customers. While FBC understands this position, the Company is of the opinion that the evidence in this process indicates that the prospect of such harm is minimal, and that this conclusion is supported by the findings of the Panel in the G-60-14 Decision.

100. It is the position of Celgar that, "It is the role of industry, not the Commission, to determine how best to use the self-generation output of self-generation customers."²² Still, Celgar asks the Commission to render a decision that denies approval of the SGP, including the SBBB reduction methodology, but approves the SSO Guidelines. Celgar also advocates for the removal of NOL as the default mode of service for SG customers, which FBC interprets to mean the disposition of SG output solely at the discretion of the SG customer up to and including sales to third parties in any amount desired while taking embedded cost service from the utility.

²² Paragraph 19

101. FBC does not support the removal of NOL service as it does not facilitate the sharing of Net-Benefits in the manner prescribed by the Commission. Without the contribution of other customers to the FBC system, there would be no opportunity for an SG customer to engage in sales of SG output.

102. FBC has in this reply submission provided a number of clarifications and corrections to the submissions of the other parties. However, it remains the case that the Commission has before it a fundamental determination to make regarding the rights of SG customers and the balancing of those rights with the interests of other customers of FBC. If the Commission sees fit to revisit previous determinations in this regard, including those respecting the provisions contained in the New PPA with BC Hydro, FBC would expect that the SGP may take a different form.

103. In the view of FBC, if the determination is to be made on principles which include that an SG customer should receive some portion of the assumed Net Benefits it provides, and that a SG customer has a limited right to receive some FBC embedded cost supply while selling its output to a third party, then the impact on other FBC customers must be accepted even if that impact is potentially negative.

104. Of particular concern to FBC, after nearly a decade of deliberating the issues that are central to the treatment of SG customers in the FBC context, is the shape the regulatory landscape would take in the event that a set of SGP is not approved.

105. For context, FBC currently has two SG customers to which the SGP would immediately apply. The first is Celgar, which already has a Commission approved SBBD in use as part of service pursuant to RS 37, and which has agreed to a SSO consistent with the proposed SGP. The second is Tolko, which has expressed satisfaction with NOL service and in any case is an industrial load of less than 4 MW such that the impact of a potential SSO would not be material.

106. FBC is not aware of any prospective additional SG but notes that any such addition would not lead to an *increase* in embedded cost supply – of either FBC or BC Hydro.

107. The third SG customer of FBC, Nelson Hydro, would not be eligible for the SGP as proposed, and it is unclear whether a utility receiving service pursuant to a SSO or on the basis of a standby rate is appropriate. Certainly, FBC has no such option for its own energy purchases. FBC urges the Commission to not extend the SGP to wholesale customers without further consideration.

108. In the view of FBC, the SSO Guidelines and SBBB Reduction Methodology, should be approved as amended and incorporating the further revisions detailed in this document. The standalone SGP, as filed in response to BCUC IR 1 can either be approved by the Commission, or accepted as a policy document intended as a guide for customers and the Company. For consistency with other FBC policies, FBC believes that acceptance as a policy is preferable. The SGP represents a reasonable accommodation of Commission determinations, SG customer rights, and the risk and benefits provided to other customers. Once approved, FBC contends that any resulting load changes should not trigger any restrictions on the ability of the Company to resource its load in the most advantageous and cost-effective manner possible.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: September 27, 2018

[original signed by]

Diane Roy