



Diane Roy
Director, Regulatory Services

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
Email: diane.roy@fortisbc.com
www.fortisbc.com

January 9, 2015

Via Email
Original via Mail

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Inc. (FBC)
British Columbia Utilities Commission (the Commission) Decision and Order
No. G-60-14 Compliance Filing
Application Regarding FBC's Self-Generation Policy

On May 6, 2014, the Commission issued its Decision and Order G-60-14 in the matter of the British Columbia Hydro and Power Authority Application for Approval of Rates between BC Hydro and FortisBC Inc. with regards to Rate Schedule 3808, Tariff Supplement No. 3 – Power Purchase and Associated Agreements, and Tariff Supplement No. 2 to Rate Schedule 3810.

As part of Directive 5 of Order G-60-14, the Commission directed FBC to file a resultant Self-Generation Policy application with the Commission by December 31, 2014, that establishes high level principles for its service territory. On December 30, the Commission granted a filing extension to January 9, 2015.

Attached is FBC's application regarding its Self-Generation Policy.

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

Sincerely,

FORTISBC INC.

Original signed by: Corey Sinclair

For: Diane Roy

Attachment

cc (email only): Registered Parties to the BCH PPA RS 3808 process
Tolko, Columbia Power Corporation and City of Nelson (participants in the FBC consultation process)



FORTISBC INC.

Self-Generation Policy Application

January 9, 2015

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1. INTRODUCTION

This FortisBC Inc. (FBC or the Company) Self-Generation Policy Application (SGP Application or Application) is being filed with the Commission pursuant to Directive 5 of Order G-60-14¹ in the matter of the *British Columbia Hydro and Power Authority (BC Hydro) Application for Approval of Rates between BC Hydro and FortisBC Inc. with regards to Rate Schedule 3808, Tariff Supplement No. 3 – Power Purchase and Associated Agreements, and Tariff Supplement No. 2 to Rate Schedule 3810* (together with the related decision, the New PPA Decision). Directive 5 stated:

FortisBC Inc. is directed to initiate a concurrent consultation process in its service territory to address or ensure:

- (i) the potential benefits of self-generation;*
- (ii) the 1999 Access Principles in the context of self-generating customers;*
- (iii) if the GBL methodology is proposed, GBL Guidelines for both idle historic self-generation and new self-generation; and*
- (iv) arbitrage is not allowed.*

FortisBC Inc. is further directed to file a resultant Self-Generation Policy application with the Commission by December 31, 2014, that establishes high level principles for its service territory.

On December 30, 2014, the Commission, through Letter Log No. 47785, granted an extension to the required filing date to January 9, 2015.

In addition, there are a number of Commission expectations found in the New PPA Decision, and also the decision related to Order G-67-14² in the matter of the *FBC Application for Stepped and Stand-by Rates for Transmission [Voltage] Customers* (Stepped Rates Decision), which are dealt with in the individual SGP Application sections that follow.

In this Application, FBC provides both its high level policy on self-generation and views with respect to the topic of the benefits of self-generation, as well as outlining how it has met its consultation requirements and addressing specific subject areas, as directed by the Commission. FBC expects that the Commission's pending final determinations in the process that resulted from its Stepped Rates Decision will clarify the manner in which the benefits of

¹ Order G-60-14 provided in Appendix A.

² Order G-67-14 provided in Appendix A.

1 self-generation are to be reflected in the Stand-by Rate schedule.³ FBC will then be in a
2 position to incorporate policies specific to self-generation net benefits into its final Stand-by Rate
3 schedule through a tariff supplement, as contemplated by the Commission in the Stepped Rates
4 Decision, and more generally, to those customers with self-generation that do not choose to use
5 the Stand-by rate (as the self-generation of any customer may result in net benefits regardless
6 of whether it uses the Stand-by Rate). The Company will also incorporate the self-generation
7 policies regarding the rights and obligations of both the self-generating customer and the
8 Company in a filing for Generation Baseline (GBL) Guidelines. These two filings will complete
9 the SGP requirements, as described below.

10
11 FBC will file an application requesting approval of GBL Guidelines, which would both satisfy the
12 anti-arbitrage condition in Directive 5 of Order G-60-14 and avoid the need to resolve the issue
13 of whether the Access Principles Settlement Agreement (APSA) applies (FBC says it does not)
14 within the context of self-generation (Items 2 and 4 of the directed consultation activities). By
15 defining in the GBL Guidelines the amount of self-generation that a customer will have available
16 for export for the life of the GBL (and consequently the supply obligation of the utility),
17 considerations arising from the 1999 Access Principles Application (APA) can remain applicable
18 only to the third party supply of load that the APA was originally intended to address. The
19 Company presents its views on these items in this Application, but the resolution of any related
20 matters that the Commission considers need to be addressed can be examined in a regulatory
21 process once it has the FBC GBL Guidelines Application before it. FBC anticipates that the FBC
22 GBL Guidelines would render Section 2.5 of the New PPA redundant once approved.

23
24 Since the main driver of this process was to remove uncertainty with respect to Section 2.5 of
25 the New PPA, to the extent that the Commission agrees that approval of FBC GBL Guidelines
26 would accomplish this objective, determinations on subjects such as the APSA and defining
27 arbitrage will not be necessary in order to move forward with defining the terms of service for
28 self-generation customers.

29
30 With respect to the Commission's determination that the net-benefits of self-generation should
31 be reflected in the Stand-by Rate schedule⁴, FBC has proposed in this Application, a means to
32 recognize the net benefits to the credit of the self-generating customer. Since the opportunities
33 to use such this method are anticipated to be infrequent due the small number and unique
34 nature of potential self-generation customers, and need to be developed in consideration of
35 each specific circumstance, the Company believes that the most reasonable approach is to
36 bring each case, with all relevant supporting documentation, to the Commission for approval on
37 a case by case basis.

³ For example, the matter of whether the Stand-by Rate schedule will incorporate a Stand-by Contract Demand or the Company's proposal for adjusting the existing Contract Demand is unresolved at this time. Final determinations on the Stand-by Rate schedule are required before any tariff supplement can be proposed.

⁴ The Stepped Rate Decision stated "The resultant RS 37 stand-by Contract Demand should ultimately reflect both the costs and the benefits distributed generation provides to BC, and provide a level of price certainty regarding network charges for stand-by service to customers considering making self-generation investments."

2. BACKGROUND

This section provides an overview of the current self-generation situation at FBC, followed by a summary of the relevant regulatory history.

2.1 CURRENT SELF-GENERATION SITUATION AT FBC

FBC currently has three customers with self-generation⁵. Two of these customers, Zellstoff-Celgar Limited Partnership (Celgar) and Nelson Hydro (the distribution utility of the City of Nelson) are connected at transmission voltage. The third, Tolko Industries Ltd. (Tolko) is connected to the FBC distribution system.

As the Commission has directed that the FBC self-generation policies will apply to, “...*current and future customers at distribution and transmission voltage*...”⁶ each of these customers could potentially be impacted by the final determinations made by the Commission in this matter. Each of these customers was consulted as part of FBC’s stakeholder engagement for this Application.

The Company is not aware of any current or future customer that is considering the addition of self-generation facilities.

2.2 RELEVANT REGULATORY HISTORY

In this Application, a number of Commission Decisions and related Orders are referred to a number of times. For ease of reference, FBC has included a summary table below containing the Order number, regulatory proceeding, and the manner in which the related Decision is referred to in the Application. Other Decisions appear in the Application, but infrequently, and as such are not included in the table.

Table 1: Relevant Commission Decisions

Order Number	Matter	Referred to as
G-48-09	An Application by British Columbia Hydro and Power Authority to Amend Section 2.1 of Rate Schedule 3808 (“RS 3808”) Power Purchase Agreement	2009 BCH PPA Decision

⁵ Not including customers with net-metering installations. This document is not intended to consider net-metering or simple IPP interconnections.

⁶ New PPA Decision, Page 104.

Order Number	Matter	Referred to as
G-188-11	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	Celgar Complaint Decision
G-202-12	A Filing by FortisBC Inc. Guidelines for Establishing Entitlement to Non-PPA Embedded Cost Power and Matching Methodology (Compliance Filing to Order G-188-11)	Matching Methodology Decision
G-191-13	FBC Application for a Certificate of Public Convenience and Necessity for the Purchase of the Utility Assets of the City of Kelowna Phase 2	Kelowna Decision
G-60-14	British Columbia Hydro and Power Authority Application for Approval of Rates between BC Hydro and FortisBC Inc. with regards to Rate Schedule 3808, Tariff Supplement No. 3 – Power Purchase and Associated Agreements, and Tariff Supplement No. 2 to Rate Schedule 3817	New PPA Decision
G-67-14	FortisBC Inc. Application for Stepped and Stand-By Rates for Transmission Voltage Customers	Stepped Rate Decision

Those decisions with the greatest impact on this Application are discussed below.

2.2.1 The New PPA Decision

In the New PPA Decision, the Commission directed FBC to initiate a consultation process with interested stakeholders to inform the development of high-level principles for FBC with respect to a self-generation policy for its service territory. The rationale for doing so was to address the appropriateness of the continued application of the Section 2.5 restrictions for the New Power Purchase Agreement (New PPA) between FBC and BC Hydro (BCH); the foundations of which were set by the Commission in 2009⁷ to protect BCH ratepayers from the risk of harm resulting from any arbitrage by FBC customers made possible by differences between embedded cost rates and prices available for power sales to third parties. In particular, Section 2.5 continues to restrict FBC from selling power purchased under Rate Schedule (RS) 3808 to any customer when such customer is selling self-generated electricity which is not in excess of its load except as permitted through the use of a Customer Specific Baseline (CSB). The regulatory process associated with this aspect of the New PPA is ongoing.

⁷ In relation to what was Section 2.1 of the 1993 PPA.

1 In the New PPA Decision, the Commission identified two issues with the restrictions as
2 proposed by section 2.5 of the New PPA, which led it to question the appropriateness of the
3 continued application of those restrictions⁸:

- 4
5 1. *The restrictions have led to rate design complications in the FortisBC territory for which*
6 *an agreeable solution has yet to be found; and*
7
- 8 2. *The panel is concerned that keeping the restrictions would considerably restrict*
9 *FortisBC's flexibility in the future to change its regulations for customers with self-*
10 *generation.*

11
12 As such, the Commission reviewed the terms of the New PPA to determine whether there
13 remained any material risk of harm to BCH ratepayers that warranted it reasonable to continue
14 to include these restrictions in the New PPA, and concluded that there was no longer such risk⁹.

15
16 In support of its conclusion, the Commission found that:

- 17
18 • The 200 MW capacity afforded to FBC under the new PPA would limit FBC's ability to
19 serve incremental load with PPA power to only freshet and/or summer periods;
- 20 • The amount of power available to FBC in the New PPA at embedded cost rates
21 (Tranche 1) is significantly less than that made available in the 1993 PPA, to the extent
22 that any incremental load served would likely be power served at the higher Tranche 2
23 rate;
- 24 • The Tranche 2 rate is set at BCH's long run marginal cost, which recovers full costs and
25 effects no harm to BCH ratepayers;
- 26 • The low market price of power today as a result of the existence of an energy surplus in
27 the Pacific North West would make it uneconomical to serve incremental power using
28 PPA power and would effectively limit self-generating customers' ability to arbitrage
29 power;
- 30 • If the market price for power is high, FBC would utilize Tranche 1 power to meet normal
31 load, leaving little capacity to serve incremental load at embedded cost rates, especially
32 in the long run; and
- 33 • The annual energy nomination requirements and penalties imposed on FBC under the
34 PPA incent more accurate forecasting and provide additional protection to BCH
35 customers.

36
37 For the reasons outlined above, the Commission noted¹⁰:
38

⁸ See the Discussion beginning at Section 8.7(page 93) of the New PPA Decision.

⁹ Ibid., p. 98

¹⁰ Ibid., p. 99

1 *The Panel's preferred solution would be to immediately remove the restrictions from*
2 *section 2.5 as it finds that due to the characteristics of the new PPA, BC Hydro's rate*
3 *payers no longer require protection, especially in the short term.*
4

5 However, the Commission remained cognizant of the issues resulting from the lack of a clearly
6 defined self-generation policy in FBC's service territory. For that reason, the Panel concluded
7 that until FBC's self-generation policies are developed, it would be premature to remove the
8 restrictions. This set the context for this SGP Application.
9

10 The Commission provided discretion and judgment to FBC in deciding upon the final scope of
11 the SGP Application, but did direct that the Company consult on the following items to inform
12 the development of self-generation policies within its service territory:
13

- 14 i. The potential benefits of self-generation;
15 ii. The 1999 Access Principles in the context of self-generating customers;
16 iii. If the GBL methodology is proposed, GBL Guidelines for both idle historic self-
17 generation and new self-generation; and
18 iv. Arbitrage is not allowed.
19

20 **2.2.2 Stepped Rate Decision**

21 On May 26, 2014, the Commission issued the Stepped Rate Decision in the matter of FBC's
22 Stepped and Stand-By Rates for Transmission Voltage Customers Application originally filed on
23 March 28, 2013. Stepped rates for transmission customers were not approved by the
24 Commission, and a further process was required to finalize Stand-by
25 Rates (Stand-by Process) as well as a number of Celgar-specific items. This further process
26 began with the submission by FBC of a Compliance Filing to the Stepped Rate Decision (Exhibit
27 B-22 in the process).
28

29 On December 18, 2014 the Company filed with the Commission its Reply Submission in the
30 Stand-by Process. The Reply Submission completed the Regulatory Timetable for the Stand-by
31 Process as determined by Order G-168-14, and the Company expects that a Stand-by Rate will
32 be approved in early 2015 that will become part of the service offering at FBC¹¹. The intent of a
33 Stand-by Rate as it relates to self-generation is to facilitate the supply of electric power and
34 energy when the customer's generating facilities are not in operation or are operating at less
35 than full rated capability.
36

¹¹ The Commission has determined that the Stand-by Rate will only be available to transmission customers and therefore Tolko will not have access to the rate.

Part of the Stand-by Rate Process included determining a means to set a “Stand-by Contract Demand” that the Commission suggested would be set somewhere between zero and 100 percent of the Contract Demand established in the underlying rate. With regard to setting the Stand-by Contract Demand (or SBCD), the Commission noted in the Stepped Rate Decision:

*Determining the appropriate Stand-by Contract Demand should take into consideration the potential benefits of self-generation, such as electricity self-sufficiency, reduced greenhouse gas emissions, or a reduction in the need for utility-provided network capacity.*¹²

As noted in its Compliance Filing, the Company, “...considers then that the purpose of the SBCD is to provide a means to recognize the benefits (or dis-benefits), if any, provided by a self-generating customer.”¹³

In Section 3.8.5.1 of the Stepped Rate Decision the Commission set forth five principles, which are discussed in Section 7.2, that it believed could be a reasonable starting point in the development of principles used to determine Stand-by Contract Demand for future customers, and directed FBC to address the matter in FBC’s SGP Application and in the context of the potential benefits of self-generation.

In the Stand-by Process, FBC suggested an alternate approach to the Commission’s Stand-by Contract Demand, which the Company has called the “Adjusted Contract Demand”. This alternate approach also seeks to recognize the benefits and costs of self-generation on a shared basis with other customers, by adjusting the customer’s Contract Demand in recognition of a share of any net benefit that the customer’s self-generation may provide. As required by the Commission, the approach takes into consideration the principles that the Commission articulated in the Stepped Rate Decision.

The Company discusses how the principles are generally supported by the recognition of benefits and costs of self-generation in the determination of the Adjusted Contract Demand in Section 7.2 of this Application.

2.2.3 The Net-of-Load Service Standard

As a result of previous Commission determinations, primarily with reference to the 2009 BCH PPA Decision¹⁴, all self-generating customers within the FBC service territory currently take service on a “net-of-load” basis. This means that prior to being able to sell any portion of the

¹² Stepped Rates Decision page (iii) paragraph 4.

¹³ Exhibit B-22 in the Stand-by Rate process, page 17.

¹⁴ In the matter of An Application by British Columbia Hydro and Power Authority to Amend Section 2.1 of Rate Schedule 3808 (“RS 3808”) Power Purchase Agreement. This Decision modified the PPA between FBC and BC Hydro such that FBC could not purchase power from BC Hydro at any time an FBC customer was selling power that was not in excess of its requirements on an hourly basis.

output of its generation facilities, the customer must first meet its own load on a dynamic hourly basis using its self-generation output. Customers are not permitted to serve any portion of load with power purchased from FBC at any time that they are also selling power.

3. ORGANIZATION

The remainder of this Application is organized as follows:

Section 4: Consultation Activities – includes a discussion of the consultation activities undertaken by FBC to address Commission directives in Orders G-60-14 and G-67-14.

Section 5: High Level Policy Statement Regarding Self-Generation - as this document is intended to establish “high level principles”¹⁵, the SGP Application begins with a response to the hypothetical question, “How does FBC view self-generation within its service area?”.

Section 6: Specific Policy Subject Areas – includes a discussion of each of the four items identified by the Commission for consultation in Directive 5 of Order G-60-14. The Company provides policy level positions on the topic areas specified by the Commission, giving more detail when available for those subjects where the proposed policies have been developed to a greater degree. In other cases, such as with the discussion of GBLs, the high level policy has been determined, but, as noted earlier and returned to below, an application in support of the policy, after the Commission’s determination regarding BCH’s Applications currently before the BCUC which address similar matters, is likely required in the future in order to fully develop the associated procedures.

Section 7: Recognition of Self-Generation Benefits - addresses the benefits of self-generation in consideration of the principles contained in Section 3.8.5.1 of the Stepped Rate Decision. This includes FBC’s approach to reflect net benefits or costs of self-generation in the charge for the service provided to self-generation customers. Given that this is a highly situation-specific examination and calculation, this aspect of the SGP Application is also provided at a high level to permit a conceptual understanding of how the Company proposes to address forecast net benefits attributable to a self-generator.

Section 8: Summary of FBC Self-Generation Policies – provides a summary table of the FBC policies regarding self-generation for the topic areas provided by the Commission and in consideration of the consultation activities undertaken by the Company.

¹⁵ Order G-60-14, Directive 5 states, “FortisBC Inc. is further directed to file a resultant Self-Generation Policy application with the Commission by December 31, 2014, that establishes high level principles for its service territory.”

Section 9: Recommended Regulatory Process – sets out a suggested process that would result in Commission approval of GBL Guidelines and a methodology for recognizing the net benefits of self-generation.

4. CONSULTATION ACTIVITIES

The consultation undertaken leading up to the filing of this Application was designed primarily to foster discussion of the four items and related issues set out in Directive 5 of the New PPA Decision.

Specifically, FBC consulted with key stakeholders on the following items:

- i. The potential benefits of self-generation (G-60-14);
- ii. The 1999 Access Principles in the context of self-generating customers (G-60-14);
- iii. If the GBL methodology is proposed, GBL Guidelines for both idle historic self-generation and new self-generation (G-60-14); and
- iv. Arbitrage is not allowed (G-60-14).

The key stakeholders successfully engaged by FBC were:¹⁶

- Stakeholders who have shown an ongoing interest in the Company's regulatory review processes:
 - British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO)
 - Commercial Energy Consumers (CEC)
- Select entities to which a Self-Generation Policy may apply to or affect:
 - Columbia Power Corporation
 - City of Nelson / Nelson Hydro
 - Tolko
 - Celgar

In addition, FBC provided a briefing to representatives from the Ministry of Energy and Mines (MEM) as self-generation policies have generated interest from the Province in other related

¹⁶ Invitations to take part in the consultation were sent to a number of other customers that did not choose to engage in the process. The invitee list is included with Appendix B to this Application.

1 regulatory processes. The Company also met with representatives of BCH in order to discuss
2 the ongoing consultation activities given that BCH was engaged in consultation of its own
3 pursuant to Order G-60-14 and that the consultation activities of both FBC and BCH were
4 intended by the Commission to be conducted concurrently and with collaboration to the extent
5 possible. FBC attended the related BCH workshops and provided input on the resulting
6 applications filed by BCH.

7
8 Each participant was sent an initial information package that summarized the issues and
9 included copies of the key related Commission Decisions. The consultation activities involved
10 initial meetings with each key stakeholder to discuss the five identified items. This was followed
11 by a written summary of FBC's understanding of each stakeholder's position which was sent to
12 that stakeholder, along with a request for written confirmation/clarification/elaboration from each
13 stakeholder to ensure that FBC provided a fair assessment of the consultation, and an
14 opportunity for stakeholders to provide additional feedback. Of the key stakeholders consulted,
15 Tolko and Celgar provided further clarification of their positions. (See Appendix B for
16 Consultation Materials and Appendix D for Intervener Submissions.) The general positions of
17 each of the stakeholders are summarized in Section 6 below.

18
19 BCOAPO and CEC expressed a concern and emphasis on ratepayer protection – in particular
20 that no cross subsidization amongst ratepayers ensue as a result of a Self-Generation Policy.
21 Moreover, CEC believes that a policy for self-generators is needed but wishes to ensure that the
22 scope is limited and clear in FBC's Self Generation Policy Application and that FBC is objective
23 in its consideration.

24
25 Nelson Hydro believes that a self-generation policy should encourage self-generation, that there
26 should be an economic incentive to develop generation such that generators are afforded the
27 opportunity to maximize profit. Nelson Hydro suggested that policies could be structured in a
28 way that allows maximum power sales early on with a future commitment to begin serving load
29 after the investment has been recouped.

30
31 Celgar emphasized its expectation that FBC, throughout its consultation, recognize that the
32 benefits of self-generation belong to investors, not to FBC shareholders or other customers.
33 Moreover, Celgar believes that the SGP Application is an important step in removing the
34 restrictions that are contained in Section 2.5 of the New PPA.

35
36 Given its role as a power producer, the Columbia Power Corporation had no strong position on
37 any of the issues covered in the Application which all deal primarily with customer load.

38
39 Stakeholder positions on the particular items set out in Directive 5 of Order G-60-14 are
40 summarized in Section 6 of this Application. Not all stakeholders consulted provided
41 feedback/positions for each item. As such, summaries of stakeholder positions are provided
42 only for the issues for which feedback/positions were received.

5. HIGH LEVEL POLICY STATEMENT REGARDING SELF-GENERATION

FBC supports the principle that the decision by a customer to install self-generation should be made by the customer based on the merits of the project. In general, it is not the role of the utility to either encourage or discourage the installation of customer-owned generation by any customer. Rather, customers should be free to make strategic investment decisions appropriate to their circumstances which may include consideration of the benefit that the self-generation provides to FBC customers as a whole, including the self-generating customer.

In this regard FBC will examine each proposed self-generation project with regard to its impact on FBC, particularly with respect to any impact that it may have on the rates of other customers as discussed in Section 7.

In those situations where a self-generation project will provide a net benefit to FBC customers as a whole, including the self-generating customer in terms of reduced infrastructure costs, lower power purchase expenses or other benefits that will have a positive rate impact over the life of the project, the Company may recognize the net benefit, such as through a Commission approved adjustment to the contract demand utilized in calculating the charges to the self-generator.

6. SPECIFIC POLICY SUBJECT AREAS (G-60-14)

This section addresses the four items set out in Directive 5 of Order G-60-14. Stakeholder positions, where positions were made known, are included in the discussion.

Although “Arbitrage is not allowed” is item four in the list provided by the Commission, the Company will discuss it prior to addressing the other items. This is because it is not so much a topic area upon which FBC will express a policy position as it is an underlying requirement set by the Commission that informs how the Company approaches the remaining items. FBC agrees with the approach that the Commission has taken, subject to considering arbitrage in a manner that incorporates the concept of a GBL.

6.1 ARBITRAGE (ITEM 4)

6.1.1 Background

The definition of arbitrage was identified as an issue during consultation. According to *Black’s Law Dictionary*, arbitrage is defined as:

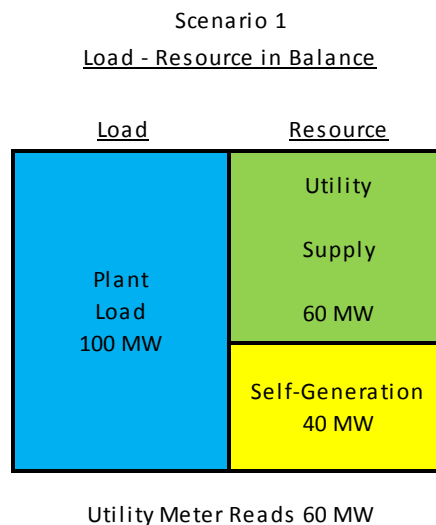
An investment strategy involving the simultaneous purchase and sale of two assets in order to capitalize on small price or rate discrepancies. The intent of the strategy is to generate a profit with a minimum amount of risk.

The arbitrage discussion should take place in consideration of the Commission's commentary that, *"It should be understood that, in any commercial context, the concept of arbitrage is not illegal nor does it carry any pejorative implication. Rather, it is simply a market mechanism to discipline price variations among separate markets."*¹⁷

In the context of utility customers with self-generation, FBC suggests that arbitrage is the circumstance where at any given point in time, the sum of the power purchased by a self-generating customer from the utility at embedded cost rates and the self-generated power exceeds the plant load of the customer, and that this excess amount of power is sold by the self-generator.¹⁸ This can be illustrated by examining the following two scenarios.

In Scenario 1 (Figure 1) below, the load of the customer is equal to the purchase of power made from the utility added to the self-generation used to serve a portion of the customer load. The sum of self-generation and purchased power does not exceed the customer load. Therefore, no arbitrage exists.

Figure 1: No Arbitrage Exists



$$\text{Plant Load (100 MW)} = \text{Self-Generation (40 MW)} + \text{Utility Supply (60 MW)}$$

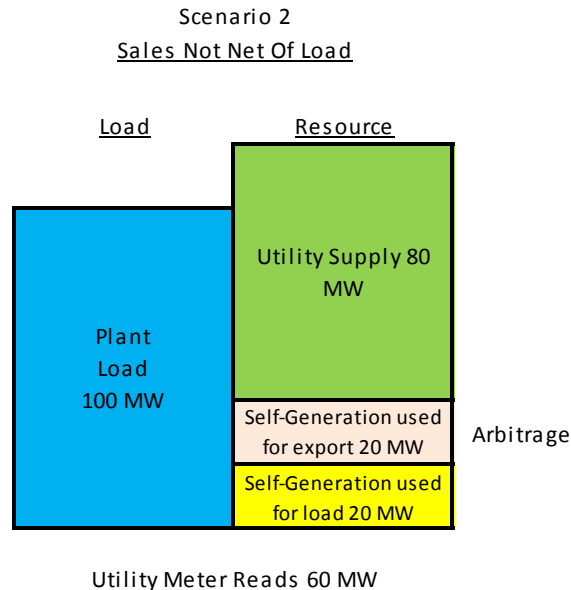
In Scenario 2 (Figure 2) below, the plant load remains at 100 MW, and the self-generation is still 40 MW. However in this case, the customer purchases 80 MW from the utility with the intent to

¹⁷ 2009 BCH PPA Decision, Page 9.

¹⁸ FBC recognizes that such sales may occur with a Commission approved GBL in place, as discussed in Section 6.3. Where such a GBL exists and sales are made in accordance with it, arbitrage does also not occur.

sell the power not required to serve plant load, which results in the sum of purchased power and self-generated power exceeding the plant load. In this case, arbitrage is occurring.

Figure 2: Arbitrage Exists



$$\text{Plant Load (100 MW)} < \text{Self-Generation (40 MW)} + \text{Utility Supply (80 MW)}$$

Note that in both cases, the metering at the interface between the customer and the utility records the same value for power being consumed at the customer plant, 60 MW. The transaction resulting from Scenario 2 requires an agreement between the utility and the customer that deems that additional power has been delivered since the actual movement of power is exactly the same in both cases.

6.1.2 FBC Position

FBC's position is as follows:

The Company will not provide embedded cost power to a self-generating customer at any time when that customer is selling self-generated power that is not in excess of its load except where such sales are made above the level of a Commission approved generator baseline (GBL).¹⁹

The New PPA Decision makes clear that the arbitrage of any embedded cost power will not be permitted in the Province, regardless of whether the embedded cost power flows from BCH or

¹⁹ A full discussion of the GBL methodology is contained in Section 6.3. A GBL defines the level of load that a customer must supply from its own generation prior to making export sales. Sales of self-generated power that may be below plant load but above a Commission approved GBL are not considered arbitrage.

1 FBC. The regulatory history and the Commission's reasoning in the New PPA Decision are
2 discussed below.

3
4 The New PPA Decision is significant because it contains directives for both FBC and BCH that
5 prompt further examination of Section 2.5 of the New PPA, and it provides the most current
6 Commission determinations with respect to the disposition of FBC embedded-cost power.

7
8 Since the 2009 BCH PPA Decision the Commission has made other determinations that have
9 informed the treatment of FBC self-generation customers. While the prohibition on the arbitrage
10 of BCH embedded cost power was maintained in subsequent orders, the "rules" around the
11 treatment of FBC embedded cost power have not been as clearly defined.

12
13 Specifically, the Celgar Complaint Decision determined that, "...Celgar is entitled to some
14 amount of FortisBC's non-PPA embedded cost power when selling power. But it is unclear what
15 that level should be."²⁰, and, "Given that Celgar has entitlement to some amount of FortisBC
16 non-PPA embedded cost power, it follows that Celgar would be allowed to sell such power to
17 third parties unless specifically precluded by doing so by contract with FortisBC. That is, such
18 non-PPA power could be exposed to the potential for arbitrage...."²¹

19
20 Subsequent to the 2009 BCH PPA Decision and the Celgar Complaint Decision, it was
21 determined (by the Matching Methodology Decision) that a self-generating customer could
22 supply up to 100% of plant load with non-BCH PPA power while exporting power, and that in
23 order to demonstrate that power delivered to the customer by FBC did not contain any power
24 purchased under the PPA, a "matching purchase" in an amount equal to the total amount of
25 power delivered to the customer would need to be made by FBC from non-PPA sources.²²

26
27 In the New PPA Decision, the Panel accepted that past Commission rulings may have
28 contributed to the current issues regarding the treatment of self-generated power within the FBC
29 service area.²³ FBC acknowledges that this is likely due to the fact that they occurred at
30 different times, in different processes, and considered different matters, and appreciates the
31 Commission's clarification of the situation in the New PPA Decision.

32
33 In this regard, with respect to the disposition of FBC embedded-cost power and the issue of
34 arbitrage, the New PPA Decision clarifies the Commission's position and makes clear that the
35 prohibition on the arbitrage of embedded cost power applies not just to BCH, but to FBC as well.

36
²⁰ Celgar Complaint Decision (G-188-11), Page 38.

²¹ Ibid., Page 39.

²² See the Commission Determination on page 15 of the Matching Methodology Decision (G-202-12). To the extent
that this matching purchase resulted in an increase in costs for FortisBC relative to the costs were there no
restriction on PPA purchases, the NECP Rate Rider was developed as a mechanism to ensure that the increase in
cost was properly borne by the self-generator and not to the harm of other customers.

²³ New PPA Decision, Executive Summary, Page iii.

As part of the New PPA Decision, the Commission has provided the background that leads to this conclusion.

First, it notes that a “Self-Generation Policy Issue” was set out in BCH’s Order G-38-01:

*“The Commission directs B.C. Hydro to allow Rate Schedule 1821 customers with idle self-generation capability to sell excess self-generated electricity, provided the self-generating customers do not arbitrage between embedded cost utility service and market prices. This means that B.C. Hydro is not required to supply any increased embedded cost of service to a RS 1821 customer selling its self-generation output to market.”*²⁴

Second, the Commission notes that through the 2009 BCH PPA Decision, it:

*...extended the “Self-Generation Policy Issue” as set out in BC Hydro’s Order G-38-01 to the FortisBC service territory. In particular, the Commission determined that self-generating customers in FortisBC’s service territory should not be permitted to arbitrage, between FortisBC’s embedded rates and market prices, to the detriment of FortisBC’s other ratepayers.*²⁵

While the Panel acknowledges that “...FortisBC points out previous Commission rulings appear to have qualified the Self-Generation Policy Principle by reference to FortisBC’s obligations under the Access Principles Application (APA).”²⁶, the Panel is quite clear in articulating the basic principle regarding the disposition of FBC embedded cost power, stating:

*The Panel concludes that ensuring the Self-Generation Policy Issue is carried out in the FortisBC territory is of utmost importance....*²⁷ *This Panel continues to agree with the Order G-48-09 determination that extended the principles established for BC Hydro’s self-generating customers as articulated in Order G-38-01 to FortisBC. Further, the Panel still agrees that self-generating customers should not be permitted to arbitrage between embedded cost rates and market prices to the detriment of other ratepayers.*²⁸

(Emphasis added)

And finally, in setting the scope for the Company’s SGP Application, the Commission has provided that the filing must be made within the confines that:

²⁴ G-60-14, page 79.

²⁵ Ibid.

²⁶ Ibid, page 100.

²⁷ Ibid, page 81.

²⁸ Ibid, page 100.

(ii) all FortisBC's customers with idle self-generation capability are able to sell excess self-generated electricity, provided the self-generating customers do not arbitrage between embedded cost utility service and market prices.²⁹ (Emphasis added)

The Commission noted in Section 3.4 of the New PPA Decision that FBC's can be defined as the weighted average cost of power supplied from all sources available to the utility, which includes the BCH 3808 resource as well as:

"...FortisBC's own resource portfolio which includes power generated by its own generation assets, the Power Purchase Agreement with the Columbia Power Corporation for power generated from the Brilliant Dam (Brilliant PPA), purchases from IPPs and from market imports."

FBC defines embedded cost power to be the weighted average cost of power supplied from all these sources available to FBC. Specifically:

- FBC generation assets;
- the Power Purchase Agreement with the Columbia Power Corporation for power generated from the Brilliant Dam (Brilliant PPA);
- purchases from independent power producers (IPPs);
- purchases from market imports; and
- BCH's embedded cost power through RS 3808.

In consideration of the above, it is clear that the Commission intends that the prohibition on selling self-generation where such sales would require the support of additional supply of embedded cost power was meant to apply equally in both the BCH and FBC service areas.

Consistent with its high level policy statement, FBC is of the general opinion that customers with new self-generation should have discretion whether to use their self-generation to displace their own load consumption or for export without restrictions on generator type, size and/or location.

While additional electricity generated from upgrades to existing generation capacity or the installation of new generation capacity can easily be considered 'incremental' energy, defining incremental energy in other circumstances is more difficult.

In the opinion of FBC, it is not any particular definition of "arbitrage", whether similar to the one above from Black's, or the more recent statement by the Commission that, *"...true arbitrage in fact can only occur where a customer purchases more energy than is required to service its load*

²⁹ Ibid, page 103.

at any moment in time³⁰, that should determine whether or not the activities of a self-generator should be permitted by the Commission. Rather, it is the potential outcome or impact that such a sale may have on the utility and its other customers that should be the primary consideration. In this regard, FBC considers that the Commission has been very clear. In past Decisions, the Commission noted:

- *Arbitrage is not, by definition alone, a negative concept. In the utility context, it is arbitrage to the detriment of other ratepayers that the Commission has consistently protected against. The Commission has consistently upheld the principle that other utility ratepayers should not be harmed by self-generators' arbitrage of embedded cost power. (Matching Methodology Decision, Page 10)*
- *If such sales occurred and BC Hydro's other ratepayers were required to pay more than they otherwise would have been required to pay, either because BC Hydro's more lucrative export sales were reduced, or because it was required to find additional supply at increased cost, arbitrage was considered to result. (Kelowna Decision, Page 18)*
- *The Panel still agrees that self-generating customers should not be permitted to arbitrage between embedded cost rates and market prices to the detriment of other ratepayers. (The New PPA Decision, page 100)*

Accordingly, FBC believes that the acceptability of the activities of a self-generator should be evaluated against their potential impact on other utility ratepayers.

The Company is further of the opinion that the sale of incremental generation as determined by a GBL should not be considered arbitrage in any sense of the word.

Arbitrage in the context of self-generation has the potential to negatively impact other customers when the utility must supply an increased amount of embedded cost power to a self-generating customer that is not required due to an increase in the physical load of that customers' plant. FBC agrees with the Commission that such arbitrage should not be permitted (except as permitted through the use of a Commission approved GBL).

In those cases where a customer wishes to repurpose generation output, or where generation has been idle for some amount of time and then becomes reactivated, a means for determining how much generation is incremental is required. In the case of BCH, electricity in excess of the Contracted GBL is recognized as incremental or new electricity. In effect, this means that the establishment of a GBL according to a set GBL guideline will determine the amount of generation that is considered to be incremental. In other words, GBL guidelines will define how much generation must be used for self-supply, with any power generated above that eligible for export without being considered arbitrage. As such, as a high level policy, FBC considers it

³⁰ Appendix A to Order G-191-13 Page 3.

appropriate to define incremental generation through a set of established guidelines. Discussion of GBL determination is included in Section 6.3 of this Application.

6.1.3 Consultation Summary

Celgar

The following represents Celgar's high-level position with respect to 'arbitrage'. Celgar believes that:

- An approved definition of arbitrage would be essential in developing Self-Generation Policy in the FortisBC service territory;
- a utility retains an obligation to serve the full load of a customer and as such the entire self-generation of a customer should be eligible for export;
- There is concern of unfair treatment resulting from a test that would factor in the impact of Celgar's activities on other customers in determining FBC's level of service provided to Celgar, when no other customer is evaluated against such a test; and
- the Commission has recently noted in the Kelowna Decision, "*in the Commission Panel's view, true arbitrage can only occur where a self-generating customer purchases more energy than is required to serve its actual load at any moment in time, as would be the case for any customer*".

Moreover, Celgar disagrees with the notion that the Commission is clear that arbitrage is not to be permitted, noting:

It is Celgar's view that the Commission previously considered the definition of arbitrage (Order G-191-13, Reason for Decision, p.22), and that if arbitrage is not to be permitted it is "true arbitrage" referred to in Order G-191-13 that is not to be permitted³¹.

Nelson Hydro

Nelson Hydro defined arbitrage to simply mean the buying and selling of essentially the same power.

³¹ Celgar Letter to FBC RE: positions on Self-Generation Policy Issues. Celgar refers to the following excerpt from the Kelowna Decision, " ...in the [Commission] Panel's view, true arbitrage can only occur where a customer purchases more energy than is required to serve its actual load at any moment in time. It is only at that moment when energy purchased will necessarily be used for the purpose of resale and not for the purpose of servicing load. This would be true for any customer, including self-generators. "

Tolko

Tolko is of the view that the issue of defining arbitrage would be solved with the introduction of a GBL guideline methodology.

6.2 1999 ACCESS PRINCIPLES (ITEM 2)

6.2.1 Background

In the mid-1990s power markets in the United States were de-regulating. In September 1995, the BCUC released the British Columbia Electricity Market Review (the Review) to the Lieutenant Governor in Council. The purpose of the Review as identified in its Terms of Reference was to provide input to the provincial government's ongoing development of electric policies. The specific purpose of the Review was to canvass the public on unbundled transmission services.

The Review proposed restructuring options for the electricity industry in British Columbia that were designed to meet several objectives including customer choice. The Review also recommended that all utilities owning transmission assets submit transmission service tariffs.

BC Hydro filed a Wholesale Transmission Services Application (BCH-WTSA) on February 17, 1997. FBC (then West Kootenay Power) filed an unbundled cost of service study in 1997 and then in July of 1998 in response to Commission letter L-26-96, filed both a Transmission Access Application (TAA) seeking approval of wholesale transmission access and retail transmission access for its industrial and municipal customers, and the Access Principles Application (as defined earlier, APA).

The TAA concerned the terms and conditions of non-discriminatory access to the transmission system, and the pricing of transmission services, The APA related primarily to the treatment of customers, who were then supplied with fully bundled embedded cost electricity service, access to wholesale transmission service so that all or a portion of a customer's load could be provided by third party generators or marketers.

In approving the APA and the Access Principles Settlement Agreement (as defined earlier, APSA) via Order G-27-99³², the Commission reaffirmed that "The goal of the APA was to open the West Kootenay Power (WKP) transmission system to all Eligible Customers to encourage the development of a competitive generation market."³³ The Commission ordered that "Nothing in the PSA provides a precedent for other utilities or circumstances."³⁴

³² Order G-27-99 provided in Appendix A.

³³ Reasons for Decision, Order G-188-11, Page 34.

³⁴ Order G-27-99, Directive 1.

In the context of the late 1990s, an FBC customer was understood to be an entity taking bundled supply. Other types of customers did not exist and the application and applicability of the APA to the current proceeding must be considered in light of the original intent and the circumstances prevailing at the time. Self-generation was not a consideration before the Commission at the time and no customer has ever chosen to exit embedded cost service using the Access Principles. The objective of the APSA, to encourage the development of a competitive generation market as a practical alternative to utility supply, has not developed.

6.2.2 FBC Position

FBC's position is as follows:

In FBC's view, the 1999 Access Principles were developed for use in circumstances that are fundamentally different than the disposition of a customer's self-generation, and applying the Access Principles to self-generation use is a fundamental misapplication of the Access Principles under the conditions included by the Commission in Order G-27-99 and accompanying Decision.

Further, it is clear that given the Commission's prohibition on arbitrage, any application (in FBC's view, more properly called a misapplication) of the Access Principles in cases where a self-generating customer partially or fully serves its plant load from self-generation and then wishes to return to embedded cost service in order to simultaneously sell its self-generation output cannot exist.

FBC has no issues with the APSA as it relates to the purpose for which it was originally intended. It is clear that the APSA did not contemplate the situation of self-generation exports. Rather, it was arrived at to deal with situations where an "Eligible Customer" had chosen an "alternate supplier" that was, as described by the Commission, a "third party".

As the Company has previously noted in response to an information request in another matter,³⁵

The application and applicability of the Principles of the APA to the current proceeding must be considered in light of the original intent and circumstances of the APA and Settlement Agreement. As the Commission had noted at the time, "The goal of the APA was to open the West Kootenay Power (WKP) [now FortisBC] transmission system to all Eligible Customers to encourage the development of a competitive generation market."³⁶

The importance of the 1999 Access Principles to the current discussion is greatly diminished in light of more recent Commission decisions, particularly the New PPA Decision. Indeed, FBC

³⁵ Response to Celgar IR No. 1.13.1, FortisBC Inc. Application for Stepped and Stand-By Rates for Transmission Customers.

³⁶ Reasons for Decision, Order G-188-11, Page 34.

believes it is rendered moot with a prohibition on arbitrage in place. FBC believes that the BCUC has clearly stated that the arbitrage of FBC embedded cost power is not permitted.

As well, as noted earlier, the Commission then ordered that, “Nothing in the PSA provides a precedent for other utilities or circumstances.”³⁷

It is clear that the circumstances surrounding this Application (export of self-generation, market conditions, and context of a rate design application), are markedly different than at the time of the APA and the Commission’s comments around precedent were astute.

This observation is reinforced by the Commissions comment in Order G-202-12:

*The Panel considers that the Re-Entry Provisions are likely subject to the Fair Treatment principle for Eligible Customers who are self-generators. However this “no-harm construct” issue has not been adequately canvassed in this proceeding, thus the Panel declines to make a finding, but rather expects that it will be addressed in the upcoming stepped transmission rate design hearing.*³⁸

The Re-Entry Provisions contained in the APSA, which govern a customer’s return to bundled utility supply after some period of service by a third party, are clear in that they apply to “Returning Eligible Customers and new Eligible Customers who initially chose an alternative supplier.....” An alternate supplier was never considered to be self-supply, and self-supply does nothing to further the objective of fostering competitive generation market that was the focus of the APA proceeding.

The Commission understood in 2010 that at the time of the APA, self-generation was not a consideration. It wrote in its decision on FBC’s 2009 Cost of Service and Rate Design Application (Decision G-156-10) at page 114:

*The Commission Panel considers that hypothetically, an eligible customer that had chosen in 1997 to receive service from a third party and was now looking to ‘come back into the fold’ and take service from FortisBC in 2010, would be entitled to receive service at embedded cost, but this must address the Fair Treatment principles to minimize the harm to existing ratepayers.*³⁹ (Emphasis added)

However, some Commission determinations since 2010 seemed to suggest that by virtue of the APSA, FBC may have an obligation to supply at least some embedded cost power to those self-generating customers who also qualify as “Eligible Customers” under the APA, even while they

³⁷ Order G-27-99, Page 2, Item 2.

³⁸ Matching Methodology Decision, Page 9.

³⁹ Matching Methodology Decision, Page 10.

are exporting generation that is not net-of-load, as long as there was no BCH PPA power in the mix.

The Company understands that Celgar argues that the Access Principles give it the right to have its plant load served with FBC embedded cost power regardless of how it uses its generation (subject to the notice provisions and other restrictions contained in the APSA). However, in the opinion of FBC, with the prohibition on arbitrage in place, the need to consider how the APSA and customer self-generation impact one another has become moot.

Given the Commission's statements in the New PPA Decision, self-generating customers are clearly prohibited from arbitraging between embedded cost FBC rates and prices available for power sales to third parties, and as such the restrictions on self-generator customers in the New PPA will be redundant once protections are put in place by FBC to enforce the prohibition. The arbitrage that section 2.5(a)(ii) seeks to prevent would not be occurring.

It is only how the prohibition is put into effect that remains to be determined.

The potential impact of extending the APSA to self-generation is to allow a self-generating customer to withdraw or partially withdraw from FBC service for its load requirements through the use of self-generation as though it had done so using a third party for supply. Under the existing APSA, a customer who opted for energy supplied by a third party could return to embedded cost service with the utility after providing two-year notice of their return without regard to the impact its return may have on other customers. As previously mentioned, the intention of the APSA was to allow eligible customers to take advantage of third-party power providers. Those customers returning to utility load were presumed to have load requirements that would not be much different from historical levels, and thus would have minimal impact to other customers.

However, where a self-generating customer had historically served less than 100% of its load through self-generation, increased that to a greater percentage and then wished to again take utility supply, it should not have access to embedded cost power in an amount in excess of what it previously took.

6.2.3 Consultation Summary

Celgar is of the view that the 1999 Access Principles are fully applicable in the context of self-generating customers. As such, Celgar believes that an obligation to serve a Self-Generation customer's full mill load at embedded cost rates continues to exist. Further, Celgar believes that GBL Guidelines should incorporate principles from the 1999 APA principles related to the obligation to serve.

The Columbia Power Corporation wants to ensure that the 1999 Access Principles do not impact transmission of generation from IPPs.

CEC indicated that there may be a need to revisit the 1999 Access Principles due to the evolution of the marketplace since they were first implemented.

6.3 FBC GBL GUIDELINES (ITEM 3)

6.3.1 Background

BCH mitigates against arbitrage between its embedded cost utility rates and market prices by setting a GBL for self-generators and supplying them with embedded cost power only in excess of that GBL. The basic premise of a GBL is that it demarks the amount of electricity that the customer must generate for self-supply prior to using any self-generation for another purpose, such as export. Electricity generated in excess of the GBL is considered to be incremental or new electricity, and the sale of electricity generated in excess of the GBL is not considered arbitrage.

This GBL is set with reference to the amount of load historically served by the self-generator, allowing for truly incremental generation to be disposed of at the discretion of the self-generator customer. FBC agrees with this approach.

If the same principle applied in FBC's service territory where FBC could enforce the principle against its self-generator customers in the same manner as does BCH, it would not be necessary for the New PPA to contain restrictions relating to self-generator customers. There would be no occasion in which a self-generating customer could purchase additional power from FBC to arbitrage. As such, there would be no occasion in which FBC would need to consider purchasing additional power from BCH to make up for any shortfall. If arbitrage were prevented within the confines of the FBC-customer relationship through a Commission approved GBL, the conduct of self-generator customers would not need to be addressed in the New PPA. As the Commission has confirmed that there should be no arbitrage of FBC embedded cost power, an FBC GBL mechanism which results in a Commission approved GBL would eliminate the need for the section 2.5(a)(ii) restrictions, and would also provide provincial consistency.

In Section 9.4 of the New PPA Decision, the Commission stated that:

"Although FortisBC would have the discretion and judgment in determining the scope of the consultation process and the resultant application the Commission would want to ensure that (i) FortisBC determines for existing self-generating customers, how much generation must be used for self-supply, and (ii) all FortisBC's customers with idle self-generation capability are able to sell excess self-generated electricity, provided the self-generating customers do not arbitrage between embedded cost utility service and market prices."

6.3.2 FBC Position

FBC's position is as follows:

FBC customers with self-generation are able to export incremental self-generation output⁴⁰ to third parties where incremental self-generation output is power produced above the output normally used for self-supply as represented by a Generator Baseline (GBL). The GBL shall be determined in accordance with the Company's GBL Guidelines and approved by the Commission.

6.3.3 Consultation Summary

CEC believes that a GBL is primarily an issue related to long-term planning and that it may be appropriate for FBC to have a different GBL policy and methodology than that of BCH. Further, CEC believes that the GBL methodology and policy must adequately define what incremental generation is.

Nelson Hydro believes that if a GBL methodology is proposed, it must consider how to deal with load changes over time and whether or not a GBL could be reset periodically.

With respect to GBL methodology, Tolko favors the 'Net-of-Load' method currently employed. Tolko is of the view that any generation that is Net-of-Load, at any time, should be eligible for sale using access to the FBC Transmission. Further, Tolko believes that in the absence of the net-of-load requirement, a self-generator's GBL is set when generation capacity is added for the purpose of electricity sale and that the GBL should be set at the historic level of self-generation used to serve its own load. Therefore, Tolko believes that this GBL would remain constant unless the self-generator's load drops below the GBL, at which point net-of-load sales would be eligible.

Celgar is in favor of a GBL methodology to determine Generator Baselines for self-generators that distinguishes between base load and incremental load. Additionally, Celgar believes consideration must be taken in order to define how long generation needs to be down in order for it to be considered idle. Celgar also expressed that the proposed FBC GBL guidelines should be included as part of this SGP Application.

6.3.4 Future GBL Application

A number of factors will inform the filing of FBC GBL Guidelines, as discussed below.

⁴⁰ Order G-38-01 noted, "The definition of incremental generation would need to be established, but it should be developed on the principle that the customer must receive no additional embedded cost energy while it is selling the output of its self-generation assets."

1 In addition to the requirement for FBC to file this SGP Application, the New PPA Decision
2 requires BCH:

3
4 *... to initiate a consultation process that will result in an application for the New PPA*
5 *Section 2.5 Guidelines by November 1, 2014. Once the Guidelines have been approved*
6 *by the Commission, they are to be added to the New PPA as an appendix.*
7

8 This is in addition to directives in Orders G-19-14 and G-106-14 that compel BCH to file an
9 application with the Commission for approval of updated Contracted Generator Baseline
10 Guidelines. BCH filed an application in satisfaction of the above directives on December 12,
11 2014.
12

13 The consultation that the Company engaged in took place prior to the filing of the BCH
14 Applications, and the language contained in both the draft BCH Contracted GBL Guidelines and
15 PPA Section 2.5 Guidelines that have been filed with the Commission have been presented as
16 a “straw-dog” for discussion. FBC expects that the additional intervener input received in the
17 BCH processes, and the outcomes, will provide information that may be useful to consider
18 incorporating in FBC’s GBL Guidelines.
19

20 FBC acknowledges that BCH’s Contracted GBL Guidelines govern only the relationship
21 between BCH and certain of its customers, and that the New PPA 2.5 Guidelines govern only
22 the functioning of the New PPA between FBC and BCH in those situations where Section 2.5
23 applies. Neither directly impacts upon the relationship between FBC and its customers.
24 However, the guidelines that FBC will propose in a future application are expected to be based
25 on common principles with those of BCH – those first elucidated by Commission Order G-38-01.
26

27 The Company believes that regulatory efficiency is best served by allowing the BCH
28 applications to be considered and disposed of by the Commission prior to FBC filing a set of
29 GBL Guidelines of its own. Presumably, the conclusions and determinations made by the
30 Commission in those processes will inform the FBC filing and reduce regulatory burden on the
31 Company, the Commission, and the interveners.
32

33 However, the Company would like to proceed with these matters expeditiously. In light of the
34 above discussion, the Company believes it a reasonable expectation that it will submit an
35 application to the Commission for approval of GBL Guidelines for customers with self-
36 generation no later than 90 days after the latest of the approval of BCH’s Contracted GBL
37 Guidelines, the New PPA 2.5 CSB Guidelines and Commission determinations in this process
38

39 In consideration of the determinations in the BCH processes, FBC’s GBL Guideline Application
40 will address such issues as:

- 41
- 42 • Initial setting of GBL;
- 43 • Adjustments to a GBL once set;

- GBL setting in consideration of both idle historic self-generation and new self-generation; and
- How long GBL will last once it has been determined.

The filing of GBL Guidelines will result in the application of the findings of Commission Order G-38-01 being entrenched in an FBC policy, in the manner that the Commission has indicated in the New PPA Decision, was the original intention contained in the 2009 BCH PPA Decision.

The Commission's position is that it, "...continues to agree with the Order G-48-09 determination that extended the principles established for BC Hydro's self-generating customers as articulated in Order G-38-01 to FortisBC"⁴¹. This is helpful in that it clarifies that the arbitrage of FBC embedded cost power should not be arbitrated, just as the same conclusion was reached for BCH. This clarification will allow FBC to move forward with GBL Guidelines of its own

The summary of G-38-01 provided by the Commission in the New PPA Decision contains the basic evolution of the GBL concept and also informs the establishment of the principles that apply to the establishment of GBLs in the FBC service area. FBC provides excerpts from the Commission's summary below, which the Company views as a high level summary of the rationale for GBLs (Commission quotes in italics with key phrases underlined):

The Issue

The matter of what level of service self-generating customers are entitled to was first raised by BC Hydro in the proceeding leading to the issuance of Order G-38-01. On February 23, 2001 BC Hydro advised the Commission that some of BC Hydro's industrial customers with self-generating capability served under Rate Schedule (RS) 1821 (Transmission Service) wished to sell some of the power they generated at market prices.

The General Directive of the Commission

The Commission therefore directed BC Hydro to allow RS 1821 customers with idle self-generation capability to sell excess self-generated electricity, provided the self-generating customers do not arbitrage between BC Hydro's embedded cost utility service rates and market prices. This meant that BC Hydro was not required to supply any increased embedded cost of service to a RS 1821 customer selling its self-generation output to market.

The Mechanism for Compliance – the GBL

Thus, the requirement for generator baselines, or GBLs, for BC Hydro's self-generating customers which sought to sell into the export market was confirmed. Further, the

⁴¹ G-60-14 Decision, Page 100.

1 *notion of “arbitrage”, as used in relation to GBLs, was the preservation of the “status*
2 *quo”, such that BC Hydro’s obligation to serve was limited to the load served at a*
3 *particular time, and self-generating customers were required to continue to serve that*
4 *portion of their own load which they had served in the past.*

5
6 At a high level, and based upon the G-38-01 summary above, FBC expects that its GBL
7 Guidelines will adhere to the following principles:

- 8
9 1. FBC customers with self-generation should have the ability to sell some of the power
10 they generate to third parties subject to the principles below.
- 11 2. Self-generating customers cannot arbitrage between FBC’s embedded cost utility
12 service rates and prices available for power sales to third parties, meaning that FBC will
13 not be required to supply any increased embedded cost of service to a customer selling
14 its self-generation output to market.
- 15 3. The mitigation of arbitrage will be accomplished through the use of a GBL which denotes
16 that portion of a self-generating customer’s own load which it had served in the past and
17 must continue to serve.⁴²

18 **6.4 BENEFITS OF SELF-GENERATION AS IDENTIFIED BY THE BCMEU (ITEM 1)**

19 **6.4.1 Background**

20 There are two separate but related Commission directives concerning the benefits of self-
21 generation. The first was included in the New PPA Decision, while the second comes from an
22 expectation in the Stepped Rate Decision (see footnote 42). Both were to be addressed by the
23 Company in this filing. The Company addresses the directive from the New PPA Decision in this
24 section, and the directive from the Stepped Rate Decision in Section 7.

25
26 In New PPA Decision, the Commission addresses the topic in section 9.2 – The Potential
27 Benefits of Self Generation. Specifically, and as noted on page 104 where the Commission
28 further describes the requirements of the SGP Application, the requirement reads:

29
30 *Regardless, FortisBC must establish Self-Generating customer policies for current and*
31 *future customers at distribution and transmission voltage and to address the following:*

- 32
33 1. *the potential benefits of self-generation as identified by BCMEU in its Supplemental*
34 *Submission (Exhibit C4-5);*

⁴² Consistent with the BCH service area, sales of self-generated power that may be below plant load but above a Commission approved GBL are not considered arbitrage. This means that in the strictest sense, some such sales permitted where a customer’s approved GBL is below its plant load. This is also true in the service area of BCH. Such an outcome is either simply not considered to be arbitrage.

The British Columbia Municipal Electric Utilities (BCMEU) Exhibit C4-5 in the New PPA process was filed in response to the four questions posed in the Commission's December 13, 2013 (Exhibit A-17) correspondence. As only one of the Commission questions probes the potential benefits of self-generation, and the BCMEU filing deals almost exclusively with the benefits of self-generation as they pertain to BCH, it is difficult for FBC to relate the BCMEU's filing directly to FBC's circumstances. In an effort to do so, FBC will first deal directly with the direct Commission question included in Exhibit A-17, and then will attempt to summarize potential benefits as identified by the BCMEU and draw any parallels to FBC.

In Exhibit A-17, the Commission asked in Question #3:

If FortisBC was free to establish GBLs, or other mechanisms, with its self-generator customers without any restrictions to RS 3808 power, what benefits would this provide to FortisBC, and what risk would it pose to BC Hydro and its ratepayers?

The BCMEU response was, in part:

We believe it is in the interest of the self-generators, FortisBC and BC Hydro, to encourage customers to install self-generation even if it does not result in net of load generation, otherwise the incentive will be [to] separate the generation entities from the load serving entities so that all new generation is net of load since the generation entities would have zero load or worse yet invest their capital in new generation outside of BC.

New generation in BC is a direct asset to the owner and an indirect asset to the other utilities particularly if there is some partial or future obligation to serve own load.

Since the distinction being made by the BCMEU is between generation added by a load customer behind the meter (i.e., the self-generator has the ability to offset load) and the same customer adding generation effectively as an IPP without the intention to use its generation to reduce load on the utility, FBC concludes that the BCMEU is stating that the potential benefit to FBC comes primarily from the self-generation customer reducing load. In its submission, the BCMEU asserts primarily that the benefit derived would result from self-generators serving their own load to free up energy and capacity for BCH to take advantage of export opportunities.

Whether this benefit is real at any given time is dependent on the alternatives available to FBC for its use of the power, and the relative price of supply. As a utility with generation insufficient to meet the aggregate load of its customers, load reduction by a single customer primarily provides an opportunity to reduce power purchases. Whether this provides an economic benefit to FBC customers depends on whether the purchase price is greater than or lower than the revenue generated from the customer rates. Regardless, the benefits can only be present if the customer uses the generation to offset load and does not export it out of FBC's service area.

Outside of the response to the specific BCUC question above, the BCMEU notes benefits that are really only applicable to BCH. This is best summarized by the paragraph from the preamble in Exhibit C4-5 as follows.

While much discussion has been had about the negative impacts to BC Hydro of a self-generator serving their own load with embedded cost power while exporting the self-generation, there has been little discussion of the benefit to BC Hydro of a self-generator installing new generation to serve their own load first which then frees up energy and capacity for BC Hydro to make export opportunities on the market- a benefit to BC Hydro rate payers at the expense of the self-generators.

FBC agrees that this benefit to BCH exists, provided that the self-generator serves its own load as noted. However, as this benefit falls to BCH even when the self-generator is located in the FBC service area through a reduction in FBC purchases under the New PPA, this in itself is not a compelling reason for FBC to support self-generation. To the extent that a reduction in FBC power purchases may also result, this could provide a benefit to FBC subject to the considerations regarding costs noted above.

In the New PPA Decision, the Commission also expressed an expectation that FBC would address specific examples of rules around self-generation for consideration suggested by the BCMEU in Exhibit C4-5. These are:

- *Defining a marker in time, after which new or renewed generation is deemed to be incremental; and*
- *A reasonable time period for the incremental generation to be sold on the market, other entities, or used for serving its own load as best suits the entity building generation (i.e. Perhaps 20 years, or 10 years after the initial capital is paid for).*

The Company is not aware of any restriction currently in place that would constrain the use of new or incremental generation in the manner suggested by the BCMEU examples. By definition, generation that is “new” or “incremental” has not historically been used to serve load and would not be restricted. In the opinion of the Company, a customer that installs new generation, or begins to use idle generation that has not served load previously, should be free to dispose of its generation as it wishes.

More importantly, the Company is of the opinion that if a customer at some point decides to use that new or incremental generation to serve load, it should not create an ongoing obligation to continue to use the generation in that manner. FBC expects to incorporate this position in its future GBL Guidelines application.

6.4.2 FBC Position

The Company does not have a position on the specific comments made by the BCMEU in its submission to the Commission, but does recognize that there may be both benefits and/or costs attributable the presence of self-generation. As such, it may be appropriate to recognize these benefits and costs in the service provided to the self-generator. Each instance must be evaluated on its own merits and the Company's proposal for doing so is included in Section 7.2 of this Application.

6.4.3 Consultation Summary

In consultation, CEC noted that the direction to “consider” the BC Government’s energy policy does not necessarily mean that it must be built into FBC’s Self-Generation Policy.

Nelson Hydro’s position on the benefits of self-generation is best summarized by its Exhibit C4-5 filed in response to the four questions posed in the Commission’s December 13, 2013 (Exhibit A-17) correspondence in the BCH PPA – RS 3808 proceeding. As previously discussed and addressed earlier in this section, the City of Nelson believes that it is in the best interest of all parties for BC to encourage more self-generation, the benefits of which would be derived from the freed energy and capacity for BCH resulting from new self-generators serving their own load, allowing BCH to make export opportunities on the market. See Appendix C for the City of Nelson/BCMEU’s Exhibit C4-5 correspondence.

Tolko believes that the benefits of self-generation are as follows:

- Reduced transmission infrastructure from distributed generation
- Improved self-sufficiency of the FBC system
- Voltage support
- Reduced system losses if the self-generation is located next to load.

Celgar is of the view that there are benefits of self-generation and that these should be considered when the Self Generation Policy is developed. In particular, Celgar would like to ensure that the benefits of self-generation are accrued to the self-generator that made the investment in its generation assets.

7. RECOGNITION OF SELF-GENERATION BENEFITS (G-67-14)

The second Commission direction concerning the benefits of self-generation is contained in the Stepped Rate Decision. In that Decision, the Commission discussed a number of principles and options that may be relevant in recognizing any potential benefits of self-generation that may

1 exist. FBC considers that, generally speaking, a key principle is that both benefits and costs are
2 to be considered.⁴³

3
4 In the Stand-by Rate Process, the Company noted practical difficulties inherent in employing
5 two separate Contract Demand values within the service parameters of a single customer and
6 proposed a means to consider the same principles espoused by the Commission for use in
7 determining the Stand-by Contract Demand by recognizing the benefits and costs attributable to
8 the self-generator. This would result in a single Contract Demand that was termed the Adjusted
9 Contract Demand, described by the Company as follows:

10
11 *FortisBC proposes that, for all customers, a Contract Demand would continue to be*
12 *established per the Commission determination, “by FortisBC and its customer with*
13 *distributed generation on the same basis as it does for any other Transmission*
14 *Customer on rate (RS31).” For future customers, this Contract Demand would then be*
15 *adjusted, where warranted, through the application of the principles identified by the*
16 *Commission and in consideration of the focus and context also provided.*⁴⁴

17
18 In the Stand-by Rate Process Celgar objected to this approach and requested that the
19 Commission require FBC to refile a proposal that specifically included the Stand-by Contract
20 Demand.⁴⁵ However, the Commission declined to do so:

21
22 *The Commission Panel notes that while it directed FortisBC to submit a filing that*
23 *included the appropriate level of SBCD it only suggested that the SBCD in RS 37 be*
24 *established at an amount between zero and 100 percent of the Contract demand*
25 *established in the underlying rate (RS 31). FortisBC proposed the Adjusted CD which is*
26 *set based on the same principles as the Commission recommended for the SBCD. The*
27 *Panel considers it can obtain all the necessary evidence required for its final*
28 *determinations from the Revised Stand-by Rate Filing and the IR responses.*⁴⁶

29
30 The questions remaining to be addressed are then:

- 31
32 1. What are these potential self-generation benefits? This is discussed in Section 7.1
33 below; and

⁴³ In the Stepped Rates Decision, the Commission expresses this in a number of places such as page 56, “The resultant RS 37 stand-by Contract Demand should ultimately reflect both the costs and the benefits distributed generation provides to BC...”

⁴⁴ Stand-by Rate Process, Exhibit B-22, page 17.

⁴⁵ For example, Stand-by Rate Process, Exhibit C2-21,

⁴⁶ G-118-14, Page 2.

2. How are they reflected in the Adjusted Contract Demand?⁴⁷ This is discussed in Section 7.2 below.

7.1 *POTENTIAL SELF-GENERATION BENEFITS*

Potential benefits of self-generation have been mentioned in a number of places in the Stepped Rates Decision and the Stand-by Rate process and include:

- electricity self-sufficiency, reduced greenhouse gas emissions, or a reduction in the need for utility-provided network capacity⁴⁸
- deferred or permanent reduction in the need for utility provided generation, transmission, and distribution capacity⁴⁹
- reduce transmission losses⁵⁰
- reduce environment impacts⁵¹
- improve reliability⁵²
- avoid or defer investments⁵³
- relieve transmission congestion⁵⁴
- replace or complement traditional power generation.⁵⁵

Further, the Commission noted that the stand-by demand charge should also take into consideration BC's energy objectives⁵⁶.

The list above may not include every potential benefit that exists but does include those that the Company is aware of at this time. Further, within FBC's proposal described in Section 7.2 below, there is flexibility to consider other potential benefits that may be confirmed.

Having identified the potential benefits of self-generation, the challenge is then to determine how benefits should be reflected in rates. FBC provided its basic position on this through an IR response in the Stand-by Rate Application.⁵⁷

⁴⁷ FBC will proceed on the basis of its Adjusted Contract Demand proposal. However in theory, arriving at the Stand-by Contract Demand would use the same assumptions.

⁴⁸ Stepped Rates Decision, page iii.

⁴⁹ Ibid, page 27.

⁵⁰ FBC Response to Celgar IR 3.18.1 in the Stand-by Rate Process.

⁵¹ Ibid.

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ Stepped Rate Decision, page 55.

1
2 *Network Charges for self-generating customers stem from the determination of Billing*
3 *Demand under RS31 and may be set by either peak demand in the billing period, a*
4 *ratchet on the peak demand of a previous billing period, or with reference to a Contract*
5 *Demand. Of these only the Contract Demand can be adjusted based on the potential*
6 *benefits that the self-generator provides. In the opinion of the Company, this adjustment*
7 *should only be made for benefits that can be demonstrated and valued as having a*
8 *positive impact on rates within a defined time frame. The principles and mechanics of*
9 *this valuation will be the subject of the future filing as directed by the Commission. The*
10 *BC Energy Objectives do not lend themselves to this type of consideration and should*
11 *not be imposed on the rate design process.*

12 **7.2 RECOGNIZING BENEFITS OF SELF GENERATION**

13 In light of the foregoing background and discussion, the following describes how FBC proposes
14 to recognize the potential net-benefits⁵⁸ of self-generation on a shared basis between self-
15 generating customers and all FBC customers. Consistent with what the Company has put
16 forward in the Stepped Rate Process⁵⁹, FBC proposes to adjust the self-generating customer's
17 Contract Demand. Since Contract Demand is a factor used to determine the floor of the Billing
18 Demand in the underlying rate schedule, its reduction also reduces the minimum Wires Charge-
19 related billing for the customer.

20
21 As rates in general flow from the Company's revenue requirement, which is funded through
22 customer charges, FBC proposes that the appropriate means to adjust a customer's charges
23 should also flow from any change to FBC's revenue requirement that the self-generation net
24 benefit creates. At a high level, the portion the forecast revenue requirement change to be
25 returned to the self-generator would be reflected in a Contract Demand reduction based on the
26 per kVA rate applicable to Billing Demand in the self-generating customer's rate schedule.

27
28 From a financial perspective, the most likely potential benefits are due to the deferral or
29 avoidance of a required capital addition, such as a substation, from the local installation of self-
30 generation, and a reduction in power purchases due to a reduction in system losses that could
31 result. While arriving at the specific impact of each would require engineering analysis and
32 potentially be quite complicated, the resulting impacts could be translated into an incremental
33 revenue requirement impact.

34
35 Although a reduction in customer load could lead to a change in the utilization of delivery
36 infrastructure, provided that a customer's Contract Demand is set with reference to its maximum

⁵⁷ Exhibit B-27, BCUC IR 3.3.2.

⁵⁸ The Commission has stated at page 56 in the G-67-14 Decision that the Stand-by rate schedule should reflect both the costs and benefits of self-generation. Any benefits that a self-generating customer may provide must be considered net of any costs that the self-generation may also impose.

⁵⁹ Stepped Rate Process, Exhibit B-28, BCOAPO IR 3.6.1.

1 demand requirement, Wires charges would recover costs appropriately and negate the need to
2 consider this factor.

3
4 The assessment of each individual self-generation installation is situational and location
5 dependent. The Company foresees that an evaluation checklist would be established that
6 contains the potential benefits from the above list (or others as identified). If it was determined
7 that an individual benefit did indeed exist, additional analysis would be done to arrive at the
8 impact to the revenue requirement and this would be included in the evaluation in addition to the
9 consideration of any cost impacts in quantifying the net benefits to be shared.

10
11 The intent of this quantification is to provide a portion of the forecast net benefit directly to the
12 customer that provided it. Based on a sharing of the net benefit between the self-generator and
13 the revenue requirement that is applicable to all FBC customers, this would serve to reduce the
14 rates of all customers, given that the utility would still provide support to the self-generator for its
15 full load requirements.

16
17 In addition to the requirement that tangible self-generation net benefits be reflected in the
18 adjusted Contract Demand discussed above, the Commission has also provided a set of
19 principles to consider when determining a Stand-by Contract Demand for customers. These
20 were included in the Stepped Rate Decision as follows:

21
22 *For future customers Special Provision 2 is replaced, at a future date, with a Tariff*
23 *Supplement that outlined Commission approved key principles that are to be considered*
24 *in identifying the potential benefits of self-generation used to determine a customer's*
25 *Stand-by Contract Demand; and By way of example, the Panel considers that the*
26 *following principles could be a reasonable starting point in the development of principles*
27 *used to determine Stand-by Contract Demand for future customers:*

28
29 **1. Economic efficiency:** *stand-by wires charges should not discourage on-site*
30 *generation that is fully economical and cost-effective but for the inclusion of stand-by*
31 *charges. Specifically, stand-by charges should not be (i) so low as to promote*
32 *uneconomic bypass of the grid or inefficient maintenance of customer owned generation*
33 *assets, or (ii) so high as to discourage the growth of cost effective self-generation.*

34
35 **2. Fairness:** *cost-causation principles should be applied in assigning costs to differently*
36 *situated customers. However, diametrically opposed interpretations of the user pay*
37 *principle could make it difficult to justify a high or low stand-by rate design solely based*
38 *on the fairness principle.*

39
40 **3. Consideration of BC Energy Policy:** *the stand-by wires charge should take into*
41 *consideration whether stand-by rates should be adjusted higher or lower to support BC*
42 *energy objectives.*

1 **4. Simplicity and transparency:** *stand-by wires charges should be easy to understand*
2 *and administer, and designed so that prospective users can estimate what their charges*
3 *will be, based on a few known cost determinants.*
4

5 **5. Stability:** *optimal stand-by wires charges can vary between customers and over time.*
6 *However, once set, stand-by wires charges for a particular customer should not be*
7 *subject to material changes (other than, for example, where there is a material change to*
8 *the corresponding retail rate design) during the term of financing a generator project,*
9 *usually 15-20 years.*
10

11 *However, for future stand-by customers the Panel finds these principles should not be*
12 *addressed in this Proceeding but are better suited to be determined through the*
13 *FortisBC's Comprehensive Self-Generation Policy Application that has been directed*
14 *pursuant to Order G-60-14.*
15

16 The principles above have been identified by the Commission as a starting point in the
17 development of a method to determine Stand-by Contract Demand. The Company has
18 determined that the overriding principle is that both costs and benefits should be recognized and
19 accrue to both the self-generating customer and customers in general on a shared basis. The
20 appropriate way to accomplish this is through an adjustment to the self-generating customer's
21 charges.
22

23 The Company considers that these Commission principles are consistent with generally
24 accepted attributes of sound rate design, and can be used to evaluate FBC's proposal. FBC
25 discusses each of the principles set out by the Commission below.
26

27 **Economic Efficiency and Fairness**

28 The Company believes that its proposal is both economically efficient and fair as it is designed
29 to return net benefits of self-generation to both the self-generating customer and all FBC
30 customers.
31

32 **Consideration of BC Energy Policy**

33 As noted above, the Company does not believe that BC's Energy Policy Objectives, while
34 important, can be effectively incorporated into a methodology that seeks to recognize benefits
35 from a financial perspective. It is not appropriate for a customer to receive a monetary incentive
36 to undertake a project that does not lead to a net reduction to FBC's revenue requirement. This
37 would necessarily lead to a transfer of costs from other customers to the self-generator.
38

Simplicity and Transparency

Once potential benefits are identified and valued, the self-generating customer can be advised of the reduction in charges in terms that are familiar since they are expressed as an adjustment to standard billing parameters. The analysis will be available and filed with the Commission for approval.

Stability

While the methodology may result in an annual variation in a customer's Contract Demand, the methodology is consistent and will not change without Commission approval. This is similar to stability in rates generally.

8. SUMMARY OF FBC SELF-GENERATION POLICIES

The Company provides below a summary of the high level self-generation policies with respect to the matters identified by the Commission in Orders G-60-14 and G-67-14. These policies will clarify the treatment of both current and prospective self-generation customers in the FBC service area. FBC also acknowledges that while the high level self-generation policies are important as standalone items, some elements of service to self-generating customers will require further process as indicated in the table below.

Policy Area	FBC High Level Policy	Required Future Application / Process
Arbitrage	The Company will not provide embedded cost power to a self-generating customer at any time when that customer is selling self-generated power that is not in excess of its load except where such sales are made pursuant to a Commission approved generator baseline (GBL).	
1999 Access Principles	FBC operates within, and is bound by, the conditions described by the Access Principles Settlement Agreement (APSA) as approved by Commission Order G-27-99. Specifically, FBC adheres to the APSA in the situations for which it was intended (the third party supply of power to Eligible Customers) and for the objectives it sought to promote (the development of a competitive generation market).	
FBC GBL Guidelines	A Generator Baseline (GBL) is used to allow FBC customers with self-generation to export incremental self-generation output to third parties. Incremental self-generation output is power produced above the output normally used for self-supply as represented by a GBL which shall be determined in accordance with the Company's GBL Guidelines and approved by the Commission.	FBC GBL Guidelines Application to be filed no later than 90 days after the latest of the approval of BCH's Contracted GBL Guidelines, the New PPA 2.5 CSB Guidelines and Commission determinations in this process

Policy Area	FBC High Level Policy	Required Future Application / Process
Benefits of Self-Generation	Where positive net benefits to FBC customers as a whole result from the installation of customer-owned self-generation, those benefits will be shared between the self-generating customer providing the benefit and all customers.	Tariff Supplement to be the subject of a compliance filing to the Revised Stand-by Rate process. ⁶⁰

9. RECOMMENDED REGULATORY PROCESSES

FBC addresses the future regulatory process stemming from the directives in the New PPA Decision and the Stepped Rates Decision that have been addressed through this SGP Application below.

9.1 NEW PPA DECISION

For the items from Directive 5 of Order G-60-14 (Arbitrage, GBL Guidelines, and Access Principles), to the extent that any further consideration is required, the Company suggests that all can be properly considered within a process following the submission by FBC of a GBL Guideline Application. Given the logical timing considerations that are present due to the BCH Application on the same subject, FBC proposes to file its own application no later than 90 days after a Commission decision in the BCH GBL matter.

9.2 THE STEPPED RATE DECISION

The discussion of the treatment of self-generation net benefits originated in the Stepped Rate Process. However, self-generation net benefits may be present even where a customer does not choose to take service under the Stand-by Rate schedule.

Therefore, the tariff supplement that the Commission envisioned may be incorporated into the final Stand-by Rate schedule by reference,⁶¹ but also for use as a standalone document in the event that a self-generation customer seeks a determination how any potential net benefits would be recognized.

FBC believes that the topic could best be further explored as a compliance filing after a final decision is made in the Stand-by Rate Process. This Stand-by Process will provide FBC with

⁶⁰ Application for Stepped and Stand-By Rates for Transmission Voltage Customers (Revised RS 37 Filing).

⁶¹ The Stand-by Rate Schedule currently before the Commission as proposed by FBC includes the following language, "Contract Demand for the purpose for a customer utilizing this Rate Schedule will be set with reference to the Customer's maximum potential Demand and may be adjusted as agreed to between the customer and the utility based on principles as set out in the attached Tariff Supplement - .Contract Demand Determination for Customers with Self-Generation."

- 1 the information required in order to propose specific language for a tariff supplement. The
- 2 Company suggests that this aspect of the SGP Application could then be finalized through a
- 3 round of information requests followed by final submissions by all parties.
- 4

Appendix A
ORDERS



IN THE MATTER OF

West Kootenay Power Ltd.

ACCESS PRINCIPLES APPLICATION

DECISION

March 10, 1999

Before:

**Peter Ostergaard, Chair
Lorna R. Barr, Deputy Chair
Kenneth L. Hall, P.Eng., Commissioner
Paul G. Bradley, Commissioner**

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COMMISSION ORDER NO. G-27-99

APPENDIX A - Appearances
APPENDIX B - Index of Witnesses
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1.0 INTRODUCTION

1.1 Background

West Kootenay Power ("WKP", "the Applicant", "the Company", "the Utility") is an investor-owned electric utility that provides wholesale and retail service in the Kootenay and South Okanagan areas of British Columbia. The Company's headquarters are in Trail, B.C., in the eastern part of the service territory. The more heavily populated Okanagan Valley, in the western portion of the service territory, includes the cities of Kelowna and Penticton. WKP is subject to regulation by the British Columbia Utilities Commission ("the Commission", "the BCUC").

WKP has an annual system peak of over 600 megawatts. The Utility owns four hydro-electric plants on the Kootenay River with a combined rated capacity of 205 megawatts. The remaining energy and capacity requirements are met through a combination of long-term contracts – with Washington Water Power, British Columbia Hydro and Power Authority ("B.C. Hydro"), Cominco Limited, and a joint venture of the Columbia Power Corporation ("CPC") and the Columbia Basin Trust Power Corporation ("CBT") – and short-term market purchases.

On July 31, 1998, WKP filed two distinct applications pertaining to electricity market reform: the Access Principles Application ("APA") and the Transmission Access Application ("TAA"). The APA was very brief, and related primarily to the treatment of generation assets in an open access environment. The TAA concerned the terms and conditions of non-discriminatory access to the transmission system, and the pricing of transmission services.

Commission Order No. G-73-98, dated August 20, 1998, established regulatory agendas for both the APA and TAA. The TAA was reviewed at a public hearing, which began on October 19, 1998, in Kelowna, B.C. The evidentiary portion of the hearing ended on October 21, 1998, with written final argument received thereafter.

The APA became the subject of a Negotiated Settlement Process, held on September 23 and 24, 1998, in Kelowna. These negotiations produced a proposal on which Commission staff sought the final comments of parties to the negotiations by September 30, 1998. On October 2, 1998, this proposal, amended to reflect the comments received, was again sent to negotiation participants, this time seeking their statements of endorsement or dissent. On October 9, 1998, this proposal, along with the letters of endorsement and dissent, were sent to all Registered Intervenors and the Commission Panel.

Following a review of these submissions, the Commission determined (in a letter dated October 15, 1998) that while significant progress had been made in defining access principles, there remained substantive issues on which agreement had not been reached. Therefore, the Commission directed that the October 19, 1998, hearing into the TAA would begin with a WKP witness panel to address, and be cross-examined on, the Utility's views with respect to access principles.

At the outset of the October 19, 1998, hearing, however, several submissions were heard concerning the disposition of the APA, including suggestions that negotiations could be profitably resumed. No APA evidence was then heard as part of the TAA public hearing process and, on October 21, 1998, the Commission ruled from the bench (T: 441) that negotiations should recommence on November 3, 1998.

These negotiations lasted two days and produced a revised Proposed Settlement Agreement ("PSA") (Exhibit 12). At the conclusion of the negotiations, participants were asked to submit letters of endorsement for, or dissent from, the PSA by November 6, 1998. A single letter of dissent was received from CBT.

As a result of this dissent, Commission staff wrote to participants on November 10, 1998, seeking their input on how best to proceed. All parties that responded to that letter, except CBT, recommended proceeding with the PSA according to the Commission's Negotiated Settlement Guidelines. CBT recommended a written hearing.

On November 16, 1998, the PSA was sent to all Registered Intervenors and the Commission Panel, along with copies of the letters of endorsement and dissent, and participants' responses to Commission staff's letter of November 10, 1998. A proposed covering letter to the PSA, which had been developed as part of the negotiation process, was also included (Exhibit 23). A letter from Commission staff covering this package sought input from all Registered Intervenors on the most appropriate way to proceed with the APA.

On November 24, 1998, the Association for the Advancement of Sustainable Energy Policy ("AASEP") responded to Commission staff's November 16, 1998, letter, indicating that it supported the position of CBT and requesting that the PSA not be approved. This, and a division of opinion about the merits of proceeding with an oral versus a written hearing, prompted the Commission to issue a letter on November 30, 1998, seeking comments from Intervenors on the role that they would anticipate playing in an oral hearing. The Commission stated that it would use this input to determine if an oral hearing would be an efficacious manner in which to proceed.

In light of the comments received in response to both the November 16 and 30, 1998, correspondence, the Commission issued Order No. G-113-98, setting the APA down for a public hearing to commence on February 10, 1999. That hearing, which considered whether the Commission should accept or reject the PSA, lasted one and one-half days and closed with oral argument.

2.0 THE PROPOSED SETTLEMENT AGREEMENT (“PSA”)

The PSA, underlined to signify one minor change to Exhibit 12 made by the Commission as a result of this Decision, is attached to Order No. G-27-99 as Appendix A.

2.1 Description of the PSA

WKP's Transmission Access tariffs define the terms, conditions, and prices of open access on the Utility's transmission system. The purpose of the PSA is to develop a fair enabling framework for open access.

To achieve this purpose, the PSA explicitly defines the meaning of Fair Treatment for each of Utility shareholders, customers who remain with bundled supply, and Eligible Customers. Eligible Customers are those customers who have the right to take unbundled transmission service, as defined in Section 1.2 of the Commission's Decision on the TAA, released concurrently with this Decision.

More specifically, the PSA identifies four key areas where policy definitions are needed to ensure Fair Treatment. These are: (1) the Utility's obligation to serve Eligible Customers; (2) an Eligible Customer's rights should it choose to take only part of its load from non-Utility sources; (3) the treatment of any stranded costs or benefits that may result from an Eligible Customer's partial or total departure from Utility supply; and (4) the re-entry provisions governing an Eligible Customer's return to bundled Utility supply.

In assessing the PSA, Intervenors raised issues which may be considered under four broad categories: (1) the pricing of Utility supply; (2) the treatment of stranded benefits; (3) the recovery of stranded Demand-Side Management (“DSM”) assets; and (4) issues of general merit and practical application. These will be considered in turn as Sections 2.2 to 2.5.

In addition, B.C. Hydro asked the Commission to make clear that the PSA was made in specific reference to WKP's APA and that nothing in the PSA provides a precedent for other utilities or circumstances (Exhibits 13 and 23).

2.2 Pricing of Utility Supply

The PSA contains several provisions with respect to the pricing of Utility supply. These provisions make plain that Utility supply will normally be priced to reflect the Utility's embedded cost of service.

WKP supported the pricing of Utility supply at embedded rates, stating that current cost-of-service principles should continue to determine rates before and after customers leave Utility supply and that rates for all customers should be based on the average cost of supply (T: 455 and 456).

Both AASEP and CBT opposed the pricing of Utility supply at embedded rates. AASEP's opposition was based on a concern that the pricing of Utility supply at embedded cost rates means that there will be a less-than-desirable amount invested in DSM resources. CBT stated that the pricing of Utility supply at embedded cost rates means that customers and potential competitive suppliers will fail to receive a clear price signal (i.e., one which reflects the Utility's cost of supplying marginal demand) and that this will inhibit the development of a competitive generation market (Exhibit 19, p. 3). CBT stated that this would be unfair to independent power producers, marketers and developers attempting to serve the market (Exhibit 20, p. 2).

To overcome its concerns, AASEP proposed a model which would see current load served at embedded cost rates and incremental load growth by Eligible Customers priced at the Utility's cost of serving the incremental load (Exhibit 10, pp. 11 and 12, T: 689). AASEP stated that this would require that current embedded cost resources be allocated amongst all customer classes and, for those classes with access to third-party suppliers, allocated within customer classes. Those customers who wished to access market supply could do so for only their incremental load, with current load served at embedded cost rates, or could choose to have some greater portion of their load, up to 100 percent, served at market rates. AASEP proposed that if a customer were to leave Utility supply entirely, the customer would leave behind all rights to the embedded cost power. If the customer later were to decide to return to Utility supply, the customer would not return to the embedded cost rates but would be charged the Utility's incremental cost (T: 689 and 690). AASEP stated that this proposal results in efficient price signals which ensure an efficient allocation of resources and an incentive to invest in all DSM which is cheaper than the Utility's marginal cost of power (T: 689 and 690).

CBT also proposed two-tier pricing of Utility supply and suggested that this could be accomplished in one of two ways. Under CBT's first proposal, the demand for power would be split into two tiers for any customer wishing to leave WKP supply. The price from WKP for supplying the first tier would reflect any system stranded costs or benefits. The price for the second tier would reflect WKP's avoided cost of power. In order to ensure that a customer whose consumption does not change is charged the same

overall cost of electricity as under embedded cost rates, CBT proposed to adjust the first tier price and quantity to produce a revenue neutral outcome at the historical consumption level of the Eligible Customer at the time of departure from WKP supply (Exhibit 19, p. 6).

Alternatively, CBT suggested that WKP could establish a first tier consisting of only existing WKP resources and long-term purchases. The amount of power available from these resources would be prorated among all customer classes, and customers within these classes, with the price reflecting the cost of these resources. The second tier would contain all other resources necessary to meet the expected load and would reflect the cost of these resources (Exhibit 19, p. 7). Customers with access to market supply would then be able to compare the cost of market supply with WKP's price for second tier power. CBT stated that the second approach would be administratively easier and would provide some pricing predictability (Exhibit 21, p. 1).

CBT acknowledged that neither of their proposals is ready for implementation but suggested that the two-tier rate structure should be the focus of a revised application by WKP, based on direction from the Commission (Exhibit 19, p. 7).

Although as noted above, WKP supported the pricing of Utility supply at embedded cost rates (T: 455 and 456), the Utility accepted that consideration of two-tier pricing might be an appropriate topic for some future regulatory proceeding (T: 626). Nonetheless, the Utility identified several problems that would need to be overcome before such a scheme could be successfully implemented. First, the Utility indicated that their analysis suggests that a two-tier pricing system would result in rates for customers who choose to remain with Utility supply that are higher than the average embedded cost of supply (T: 628). Second, WKP stated that a two-tier pricing system would impose additional administrative burdens, including frequent re-estimation of stranded costs in order to determine rates (T: 631) and the establishment of a unique rate for each customer requesting access (T: 632).

In response to the latter issue, CBT maintained that the calculation of a unique rate for each customer is no different in concept from the current situation in which different energy and capacity charges result in a different average rate for each customer (Exhibit 20, p. 3).

2.3 Stranded Benefits

The PSA acknowledges that open transmission access may produce stranded benefits and requires that these benefits accrue to those customers that remain with Utility supply.

WKP supported the retention of stranded benefits by those customers who remain with Utility supply, stating that it would be unfair to permit departing customers to have the opportunity to benefit from market purchases and at the same time give those same customers all the benefits of the low embedded costs of Utility supply (T: 455). More specifically, WKP stated that if a customer chooses to purchase from the market, instead of from WKP at the embedded cost of its resource portfolio, the customer does so accepting all the risks and benefits of market purchase and that customers who decide to continue to rely on WKP's resource portfolio should receive the full benefit of that portfolio (T: 456).

Both AASEP and CBT took exception to the provisions of the PSA relating to stranded benefits. AASEP indicated that it does not accept that the PSA provides sufficient protection of the stranded benefits for core market customers and fears that these protections will be eroded over time (T: 692 and 697). As a result, AASEP indicated that it believes a mechanism that explicitly shares the stranded benefits between remaining and departing customers would be preferable (T: 693 and 697). AASEP maintained that an example of such a mechanism is the pricing model which it proposed and which is discussed in Section 2.2.

CBT stated that it is unfair to deny market access customers stranded benefits while requiring the same customers to pay stranded costs (Exhibit 19, p. 3). More specifically, CBT maintained that market access customers should have the right to continue to consume power from the resources acquired on their behalf that have a higher value (lower cost) than the market (Exhibit 21, p. 7). CBT proposed that Eligible Customers receive these stranded benefits through the purchase of first tier energy from WKP. However, if a customer takes less than its share of first tier electricity, CBT accepted that the customer would leave any stranded benefits behind (Exhibit 19, p. 8). CBT maintained that the loss of stranded benefits in this situation is not unfair since the customer is making the choice to abandon the benefits (T: 583). In addition, CBT indicated that it has not identified any practical way for a customer leaving Utility supply in its entirety to retain its stranded benefits (T: 584).

CBT was unable to identify any jurisdictions where departing customers are allowed to take stranded benefits with them, but noted that in Alberta the distribution companies have been assigned their customers' historical share of resources in place at the time the electricity market restructuring legislation came into effect (Exhibit 21, pp. 7 and 8).

2.4 Demand-Side Management (“DSM”)

The PSA does not specifically address issues surrounding the provision of DSM programs by the Utility. WKP indicated that it does not consider this to be a flaw with the PSA, stating that the hearing into the PSA is not the appropriate proceeding for evaluating mechanisms to address DSM concerns (T: 459).

In contrast, AASEP indicated that it views the PSA as not being in the public interest because it does not adequately address stranding of past DSM investments and does not encourage the efficient allocation of resources, including future DSM investment and renewables (T: 671). In addition, AASEP stated that the PSA predetermines issues before the Commission as part of the Transmission Access Application (T: 671). Specifically, as discussed in Section 2.2, AASEP objected to provisions in the PSA which would allow a customer who left WKP supply to return to Utility supply at embedded cost rates (T: 674), recommending that the customer instead be charged the Utility's incremental cost of providing power.

AASEP suggested that its public interest concerns could be overcome if the Commission either imposes a two-tier pricing system similar to that proposed in the testimony of AASEP's witness, discussed in Section 2.2, or requires 100 percent of DSM costs to be recovered through the transmission revenue requirement (T: 681). AASEP's evidence and arguments with respect to the recovery of DSM costs form part of the record with respect to WKP's Transmission Access Application. This issue is discussed fully in Section 3.4 of the Commission's Decision with respect to WKP's TAA, dated March 10, 1999.

2.5 General Merit and Practical Application

In addition to discussion on the issues described above, the Commission heard from a number of Intervenor on more general issues. Some endorsed the PSA, even while acknowledging that it may be a little-used first step. These parties emphasized the many issues to which the PSA brings clarity, its value as a symbol of market development, and its use as a vehicle to deliver the inherent benefits of customer choice. They also noted that there is unanimous support for the PSA among customer groups.

Dissenters from the PSA argued that merit requires usefulness, and that markets need real, not symbolic, access to achieve the benefits of competition. These parties took this argument further, suggesting that the PSA is not simply benign, but would impose additional costs on Utility customers, may damage the environment, and could stand as an obstacle to further market development.

The Interior Municipal Electrical Utilities ("IMEU") listed 40 ways in which the PSA brings clarity to the operation and conduct of open access for WKP and its customers (T: 642). The IMEU argued that these 40 points of clarity, in and of themselves, offer a very substantial argument in favour of Commission approval for the PSA (T: 645).

The IMEU also noted that the PSA emerged from negotiations between the Utility and its customers, and urged the Commission to assign considerable weight to that fact (T: 645). WKP also emphasized this

point in their final argument, calling the endorsement of the PSA by all customers “almost determinative” of the issue (T: 620).

WKP used the phrase “almost determinative”, it said, because it recognized that the Commission holds a legislative responsibility to determine if the PSA is in the public interest (T: 620). However, WKP sought to define public interest by suggesting that, from the Commission’s perspective and considering only the issues in this hearing, it should be irrelevant that the PSA does not create competitive opportunities for third party suppliers and improved opportunities for energy efficiency measures (T: 622).

Customer consensus was also used by WKP to address claims by CBT (Exhibit 19, Evidence of J. Smienk, Q. 8) that the PSA, if approved, would be harmful or regressive. WKP argued that it would be “hard to imagine” how an agreement reached between the Utility and all of its customer groups could be regressive (T: 622). And since the PSA is not regressive, this is further reason for the Commission to approve it, WKP argued (T: 623).

Indeed, WKP stated that rejection of the PSA would be a regressive step that would restrict the options of wholesale customers whose contracts will be expiring in the coming years. The Utility argued that the regulatory certainty provided by the PSA is critical to fair and efficient negotiations with these customers and that providing that certainty now does nothing to restrict future proceedings designed explicitly to seek opportunities for third party suppliers or energy efficiency measures (T: 623).

In a related argument, the Consumers Association of Canada (B.C. Branch) et. al. [“CAC (B.C.) et. al.”] argued that efforts to create open access are fine, but that efforts to create a competitive market risk adverse impacts for residential and other captive customers (T: 667 and 668).

A more abstract argument in favour of the PSA was presented by the Joint Industry Electrical Steering Committee (“the Committee”). The Committee conceded that the PSA would create access, not competition, and that access without competition is of little practical value. Nonetheless, the Committee argued that the PSA provides important symbolic value and it consolidates and rewards the efforts of WKP and its customers. It also provides a basis from which to move forward (T: 656 and 657).

In dissenting from the PSA, CBT disputed WKP’s position that customer support for the PSA should be almost sufficient for the Commission to approve it. CBT argued that if customer agreement were sufficient for approval of the PSA, then this hearing – or certainly CBT’s presence at it – was unnecessary (T: 710). Moreover, CBT challenged the strength of customer support for the PSA – describing the endorsements as ‘hollow’, and noting that most customers see the PSA only as a starting point (T: 711).

Expectations that the PSA will have little practical effect were also seized upon by CBT. While acknowledging that the Commission is not a court, CBT noted that courts have a general practice of refusing to grant opinions on general matters, or considering matters that are moot (T: 715). CBT stated that since the PSA would not actually lead to use of WKP's open access tariffs, any benefits which might be derived from the IMEU's 40 points of clarification are purely notional and serve only to make people feel that they are accomplishing some kind of market reform (T: 718).

Referring to the arguments of the Committee, CBT argued that the Commission should not approve the PSA simply to reward effort. Instead, the Commission should only reward results that are clearly in the public interest (T: 732).

Like CBT, AASEP raised concerns that the APA would represent an impediment to future market development. These concerns, the organization argued, are sufficient to militate against approving the APA now, with a view to investigating improvements in the future.

AASEP's first concern in this regard is that rights, once vested, can be extremely difficult to revoke. AASEP cited the PSA's re-entry provisions as a possible area of concern in this respect (T: 675). In addition, AASEP argued that the PSA's two year notice period to depart Utility supply would lead to a short-range planning horizon for the Utility, at the expense of both the environment and captive rate payers (T: 678 and 679).

2.6 Commission Determinations

The Commission notes that the PSA is the fruit of negotiations between WKP and its customers as to the rights and obligations of WKP and its customers in an era of increased market access and is supported by all WKP's customers. While the Commission agrees with those parties who argued that the endorsement of the PSA by all customer groups is not sufficient grounds to find that the PSA is in the public interest, in the absence of evidence indicating a clear harm to ratepayers, it is supportive of such a finding.

The Commission does not believe that the parties opposing the approval of the PSA have demonstrated that such approval will lead to rate payer harm either by impeding future market developments or entrenching rights and obligations which may prove difficult to change in the future. This is not to suggest that the Commission believes that the PSA represents an end point with respect to market development. Several parties have indicated desires to see further restructuring of the market – either broadly within the province as a whole or more narrowly within WKP's service area. If this occurs, the Commission expects that further refinements of the rights and obligations of utilities and their customers will need to be undertaken and that repudiation of the PSA in whole or in part is possible. In this regard, the Commission

notes that the PSA was made in specific reference to WKP's APA and that nothing in the PSA provides a precedent for other utilities or circumstances. Nonetheless, by defining the current agreement between WKP and its Eligible Customers as to their respective rights and obligations, the PSA provides a framework in which decisions regarding suppliers may be made by Eligible Customers within WKP's service area.

With respect to the particular concern raised by CBT and AASEP over the pricing of WKP supply, the Commission believes that there is merit to a further examination of two-tier pricing. This is discussed more fully in Chapter 3.0.

With respect to the recovery of DSM costs, this issue is dealt with in full in the Commission's Decision regarding WKP's Transmission Access Application, dated March 10, 1999.

Based on the evidence and argument adduced at the hearing, the Commission is persuaded that the PSA is in the interest of WKP ratepayers. **Therefore, the Commission accepts the PSA, but amends the notice deadline of March 1, 1999, on page 2 to read April 1, 1999.**

3.0 NEXT STEPS

3.1 Further Consultations, Hearings, or Applications

Several Intervenors to this proceeding indicated that they viewed the PSA as encapsulating a transitional set of principles that will need to be re-visited in the future. The IMEU, for example, called the PSA a “useful step forward” in developing open access, but added that not much will have been achieved if it is also the last step. To ensure that further progress is made, the IMEU encouraged the Commission to endorse specific next-steps as part of a direction approving the PSA (T: 648 and 649).

The nature of what, if anything, the Commission should direct by way of next-steps was the subject of considerable comment by both WKP and Intervenors. CBT asked that the Commission reject the PSA and direct WKP to submit an amended application that incorporates access principles based on two-tier pricing. CBT suggested, as well, that this new application's development should proceed using an Open Access Council (“OAC”), as proposed in WKP's TAA. CBT has indicated a willingness to participate in such a process (T: 729).

AASEP argued that under any reasonable assumptions, there would be no need for access principles within the next two years. In the meantime, AASEP proposed that the status quo is acceptable, while work proceeds on a “marginal costing proposal” (T: 704).

WKP argued that the broad issue for further consideration is whether or not utility rate structures are the appropriate means to create opportunities for third party suppliers and energy efficiency measures. WKP characterized such decisions as embodying fundamental changes to rate design principles in current use (such as basing rates on the cost of service) and argued that such changes should be explored in the context of a distinct proceeding with clear terms of reference to examine these issues (T: 736).

WKP supported these comments by arguing that any further process directed by the Commission in approving or rejecting the PSA should include all utilities in B.C. The Utility noted that CBT and AASEP did not argue in this proceeding for the approval of any specific mechanisms. As a result, WKP stated, the Commission could, at most, direct the Utility to file another application designed to foster opportunities for third-party suppliers and energy efficiency measures. However, WKP further asserted that the record before the Commission is inadequate to allow such a direction (T: 624).

WKP did, however, indicate that it would support further development work aimed at finding a mechanism to create opportunities for third party suppliers and energy efficiency measures. It also suggested that an OAC may be an appropriate vehicle for this work, and recommended that funding should be available for participants if an OAC is used to review rate design mechanisms (T: 737 and 738). The CAC (B.C.) et. al. saw competitive opportunities of the type supported by CBT as coming at the expense of residential customers. For that reason, CAC (B.C.) et. al. “[did] not urge the Commission to create a new generic process” (T: 668 and 669).

However, to the extent that the Commission sees merit in pursuing the general proposals of CBT and AASEP, the CAC (B.C.) et. al. agreed with the Utility position on future proceedings, arguing that the only appropriate process is a generic public hearing (T: 666). A generic process is also appropriate, the CAC (B.C.) et. al. suggested, since it would be unproductive to require WKP to bring forward an application based on principles that it has, to date, rejected (T: 540). In the event that such a proceeding were to take place, then the CAC (B.C.) et. al. has said that they will fully participate in it (T: 669).

British Columbia Hydro and Power Authority (“B.C. Hydro”) disputed the need for a generic hearing, although its comments were made in reference to a two-part rate in particular, rather than referring to general mechanisms aimed at creating competitive opportunities for third party suppliers and energy efficiency measures. Specifically, B.C. Hydro argued that a generic hearing would be impractical, since “the type of two tier rate is informed by and determined by the type of market access available in the service area in which the two tier rate would be offered” (T: 640).

Other Intervenor took similar positions. While arguing that there is a need to move forward with “full inquiry, including ADR” on how best to create competition, the Committee suggested that this process should be limited to the WKP service territory. The Committee argued that the circumstances and policy issues of WKP are different from those of a Crown Corporation, and that a generic hearing would risk getting these issues “muddled up”. The Committee also stated that, in its view, the benefits of competition could be achieved in the WKP service area without too much difficulty (T: 659).

The IMEU also argued against a generic hearing which involved broad restructuring questions, recalling that such efforts have been unsuccessful in the past, and suggesting that the Commission would be doing a “disservice” if it embarked down that path again. Nevertheless, the IMEU did indicate that, in its view, it would be extremely valuable for the Commission to direct WKP to meet with interested parties using the Utility’s proposed OAC. This process could develop a series of principles and mechanisms for the Commission’s consideration that might be used to facilitate “marginal cost pricing in the context of open access” (T: 654).

3.2 Commission Determinations

As noted in Section 2.6, the Commission is persuaded that the PSA represents a useful step toward open access. However, the Commission also acknowledges that the current pricing structure imposes a substantial barrier for alternative suppliers as well as discouraging certain DSM options. As a result, the Commission believes that further exploration into the use of rate structure to foster supply competition and to encourage DSM and other conservation measures is appropriate. The Commission believes that this exploration should be directed narrowly at the WKP service area. For the reasons stated by the IMEU, the Committee and B.C. Hydro, the Commission feels that a generic hearing would be both inefficient and inappropriate.

The Commission is, however, unprepared at this time to direct WKP to file an application based on principles which both it and this Commission have not thoroughly explored. The Commission is also not in a position to direct consultation between the Utility and interested parties under the auspices of an Open Access Council, since the Commission declined to direct the creation of an OAC in its Decision on WKP's Transmission Access Application, released concurrently with this Decision.

Therefore, the Commission requests WKP to work with interested parties to examine alternative rate structures or arrangements that will foster the development of the most efficient supply sources and encourage conservation measures. **In addition, the Commission directs WKP to file a report by December 31, 1999, that discusses, at a minimum, the progress made in these consultations, the Utility's views on possible amendments to the principles embodied in the PSA, and the merit of using rate design measures to promote a competitive generation market in the WKP supply area.**

Dated at the City of Vancouver, in the Province of British Columbia, this 10th day of March, 1999.

Original signed by:

Peter Ostergaard
Chair

Original signed by:

Lorna R. Barr
Deputy Chair

Original signed by:

Kenneth L. Hall, P. Eng
Commissioner

Original signed by:

Paul G. Bradley
Commissioner



IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by West Kootenay Power Ltd.
for Approval of Access Principles

BEFORE: P. Ostergaard, Chair)
L.R. Barr, Deputy Chair)
K.L. Hall, Commissioner) March 10, 1998
P.G. Bradley, Commissioner)

O R D E R

WHEREAS:

- A. On July 31, 1998, West Kootenay Power Ltd. ("WKP") filed an Access Principles Application ("APA") for Commission approval; and
- B. On August 13, 1998, the Commission issued Order No. G-73-98 establishing that the APA would proceed through the use of an Negotiated Settlement Process to be held September 23 and 24, 1998; and
- C. On September 23 and 24, 1998, the negotiations were held, resulting in a proposal to which there was limited agreement; and
- D. By letter dated October 15, 1998, the Commission determined that the public hearing into WKP's Transmission Access Application was to commence with an examination of evidence concerning the Utility's APA; and
- E. At the outset of the public hearing on October 19, 1998, several submissions were heard concerning the disposition of the APA, including suggestions that the negotiations be resumed; and
- F. On October 21, 1998, the Commission ordered, from the bench, that the APA negotiations be continued on November 3, 1998, in Vancouver; and
- G. The negotiations were held as ordered, resulting in a Proposed Settlement Agreement ("PSA"); and
- H. Parties to the negotiations were canvassed as to whether they endorsed or dissented from the PSA; and
- I. A letter of dissent was received from Columbia Basin Trust; and
- J. A letter was received from the British Columbia Hydro and Power Authority ("B.C. Hydro") stating that it did not oppose the PSA provided that it was not seen as setting a precedent for B.C. Hydro; and
- K. On November 16, 1998, the PSA was circulated to all Registered Intervenors as well as the Commission Panel. In the cover letter attached to the PSA, parties were canvassed as to the acceptability of the PSA, the desirability of a hearing, and, if held, whether that hearing should be oral or written; and

- L. In response to this letter, the Association for the Advancement of Sustainable Energy Policy indicated that the PSA was not acceptable. In addition, certain parties indicated a preference for an oral hearing; and
- M. On November 30, 1998, the Commission canvassed Registered Intervenors as to their level of participation if an oral hearing were held; and
- N. On December 10, 1998, the Commission reviewed the responses; and
- O. On December 14, 1998, the Commission issued Order No. G-113-98 setting down an oral hearing into the PSA to commence February 10, 1999, in Kelowna; and
- P. The hearing was held as ordered.

NOW THEREFORE the Commission orders as follows:

1. The PSA with respect to WKP's Access Principles Application is accepted with the notice deadline of March 1, 1999, on page 2 amended to read April 1, 1999 and is attached as Appendix A to this Order. Nothing in the PSA provides a precedent for other utilities or circumstances.
2. WKP is directed to file a report by December 31, 1999, that discusses, at a minimum, the progress made in consultations with interested parties concerning alternative rate structures or arrangements that will foster the development of the most efficient supply sources and encourage conservation measures, the Utility's views on possible amendments to the principles embodied in the PSA, and the merit of using rate design measures to promote a competitive generation market in the WKP supply area.

DATED at the City of Vancouver, in the Province of British Columbia, this 10th day of March, 1999.

BY ORDER

Original signed by:

Peter Ostergaard
Chair

Attachment

**West Kootenay Power Ltd. Access Principles Application (“APA”)
Proposed Settlement Agreement**

PURPOSE

Through its Transmission Access Application, West Kootenay Power proposes to open its transmission system to all Eligible Customers. The goal of open access is to encourage the development of a competitive generation market resulting in efficient resource allocation. The purpose of the APA is to ensure that this occurs in a way that results in the Fair Treatment of Utility shareholders, of customers who remain with Utility supply and of Eligible Customers who choose to obtain some or all supply from non-Utility resources.

DEFINITIONS

Commission means:

The British Columbia Utilities Commission.

Eligible Customer means:

Those West Kootenay Power bundled service customers eligible for transmission access as determined by the Commission from time to time.

Embedded Cost of Power means:

West Kootenay Power’s cost of generation related transmission assets, generation assets, power purchase contracts, market purchases and other costs of power as determined by the Commission from time to time.

Fair Treatment means:

- (i) For shareholders, the opportunity to earn a rate of return on equity does not change as a result of the exit, partial exit or re-entry of Eligible Customers;
- (ii) For customers who remain with Utility supply, the exit, partial exit or re-entry of Eligible Customers must, at a minimum, make them no worse off than if Eligible Customers had always remained with the Utility. Any payments, made by Eligible Customers to ensure that those customers who remain with Utility supply are made no worse off, will be allocated by the Utility in such a way that no customer class is made worse off. Each remaining customer class is made no worse off if their rates for bundled service are no higher after an Eligible Customer makes its election. The rates before election are determined by a prospective calculation of the Utility’s total net revenue requirement allocated to customer classes using embedded cost methodologies as accepted by the Commission from time to time. Similarly, the rates after election are calculated prospectively considering the change in total net revenue requirement due to the change in load, again allocated to customer classes using embedded cost methodologies as accepted by the Commission from time to time;
- (iii) For Eligible Customers,
 - a) the maintenance of West Kootenay Power’s obligation to serve continues for an Eligible Customer as long as the Eligible Customer elects to receive embedded cost service from West Kootenay Power for all or part of its load;

- b) the right to elect to leave the embedded cost service of West Kootenay Power in whole or in part;
- c) the right to return to West Kootenay Power's embedded cost service as set out under the Re-entry Provisions; and
- d) notwithstanding the general principle that remaining customers are to be made no worse off by the exit of Eligible Customers, the right to take with them any benefits accruing from their load characteristics (that is, size and load factor), without additional payment or compensation to customers who remain on Utility supply.

OBLIGATION TO SERVE

West Kootenay Power retains the obligation to serve every customer until that customer elects to leave the embedded cost power service of West Kootenay Power. In the event of partial supply customers, West Kootenay Power retains an obligation to serve the portion of a customer's load that remains with the Utility (subject to the provisions set out below under the section entitled Partial Supply). West Kootenay Power retains the obligation to provide transmission and distribution service to all customers within its service territory.

West Kootenay Power also retains the obligation to serve at embedded cost rates any new load entering its service territory, any additional load attributable to its existing customers, and returning Eligible Customers, under the Re-entry Provisions outlined below.

West Kootenay Power will provide short term backup service on a reasonable-efforts basis to Eligible Customers within its service territory for the period required by those Eligible Customers for the unanticipated loss of firm supply. For this service, West Kootenay Power will charge the higher of the market buy price or the cost of the marginal unit in West Kootenay Power's supply portfolio if West Kootenay Power supplies from its portfolio. The price charged will be determined retrospectively and will apply to the full period of service. In addition, West Kootenay Power may charge additional administrative costs reasonably incurred by the Utility to provide this power supply.

It is acknowledged that existing contracts between the Utility and Eligible Customers will not be abrogated. However, it is recognized that West Kootenay Power has a need for notice before the departure of any Eligible Customer and, therefore, it will be desirable if contracts are renegotiated in a timely fashion. In this regard, the City of Kelowna and the City of Nelson will provide notice of intent to leave the Utility or to enter into a new contract for bundled service by April 1, 1999. All other Eligible Customers that have contracts with an expiry date beyond 1999 will provide notice of intent to leave or to enter into a new contract for bundled service at least two years prior to the expiration of their bundled service contracts. Failure to provide such notice of intent to leave will expose these Eligible Customers to any costs imposed on remaining customers, as defined in the Re-entry Provisions below. If after giving notice of intent to stay, the Eligible Customer and West Kootenay Power are unable to conclude a mutually satisfactory contract and one or both parties believes this to be the result of the conduct of the other party, the Commission may be asked to grant protection from any costs implied by other parts of this agreement.

West Kootenay Power will enter into good faith negotiations with any Eligible Customer desiring to enter into a new contract at embedded cost rates. Any new contract will be subject to Commission approval. In any case, West Kootenay Power will include in all new contracts a condition that any Eligible Customer must provide at least two years' notice of early termination, West Kootenay Power will use reasonable efforts to accommodate, in a manner that results in Fair Treatment, a departure such that no stranded cost payment is required.

If such an accommodation cannot be found, Eligible Customers that leave West Kootenay Power during the notice period, taking with them 25% of their prior year's load or less, will pay mitigated stranded costs, if any, for the lesser of the remaining term of the notice period or two years. If an Eligible Customer takes with it more than 25% of its prior year's load, or if an Eligible Customer's monthly load factor in any month decreases by more than 20% as a result of going to market, or if the combined departure of all Eligible Customers' load exceeds 10% in any year of the Eligible Customers' total aggregate load at the end of the previous year, the Eligible Customer will pay mitigated stranded costs, if any, for a period of five years less any part of the notice period during which the Eligible Customer remained with West Kootenay Power for its total load. Within 15 business days of a request, West Kootenay Power will calculate for both a two-year and a five-year period the payments required to ensure that the revenue requirement of remaining customers is not increased from that which is expected to have occurred if the Eligible Customer had not departed early.

New Eligible Customers have the right to be served entirely through an alternate supplier without attracting any of the stranded cost provisions described above.

PARTIAL SUPPLY

An Eligible Customer may elect to meet any or all of its load requirements from West Kootenay Power. If any Eligible Customer elects to meet part of its load requirements from West Kootenay Power, then the rate for partial supply requirements shall be determined so as to ensure that all other customers receive Fair Treatment. For example, if by taking part of its load to market, an Eligible Customer materially worsens the load factor of that portion of its load which remains with the Utility, the Eligible Customer will compensate for these costs consistent with Fair Treatment. In contrast, if an Eligible Customer materially improves its load factor for the portion of its load remaining with the Utility - for example, by taking its peaking requirements to market - the Eligible Customer will realize the benefits of this in the price it pays for its remaining load (to the extent that this can be accomplished in a manner consistent with Fair Treatment and recovery of the embedded cost of service).

In order to satisfy the informational needs of potential partial load Eligible Customers, West Kootenay Power will respond within 15 business days to an Eligible Customer's inquiry about Utility rate changes (both generation and transmission) that the Eligible Customer will face as a result of its partial load election. New rates will be incorporated by reference in a new contract, and subject to Commission approval.

STRANDED COSTS AND BENEFITS

West Kootenay Power is not seeking any specific compensation for stranded costs as part of this agreement. Any person may raise the issue of Fair Treatment in any future stranded cost application before the Commission. However, before asking for stranded cost relief, West Kootenay Power is expected to have exhausted all reasonable avenues of stranded cost mitigation. In addition, the amount of any stranded costs attributable to an Eligible Customer's departure will be reduced by any benefits to remaining customers which result from that departure. However, in no case will this confer to a departing Eligible Customer a claim to stranded benefits.

Where a stranded cost or benefit determination is required, the amount of the stranded costs or benefits will be calculated by West Kootenay Power, disclosed to all interested parties, and submitted to the Commission for approval.

West Kootenay Power acknowledges the likelihood that open access may produce stranded benefits. If this is the case, these benefits will accrue to those customers that remain with the Utility. Departing Eligible Customers may not take these benefits with them, either in the form of exit payments or generation entitlements. Departing Eligible Customers retain claim to the inherent benefits implied by West Kootenay Power's low cost power, as provided for in the Re-entry Provisions.

Where a market opportunity to obtain power is available to an Eligible Customer which would not be viable without additional incentives, the Eligible Customer may seek to negotiate a sharing of stranded benefits under the auspices of the Commission. Such negotiations will be conducted pursuant to the Commission's Alternate Dispute Resolution Guidelines as they may exist from time to time.

Stranding caused by transmission or distribution bypass will be the subject of Commission consideration if and when it arises. As in other stranded cost recovery scenarios, West Kootenay Power will be required to have taken all reasonable steps to protect its assets from stranding and such steps will not create obligations or create a greater burden on the Utility than arises from regulatory principles, including prudent investment obligations.

RE-ENTRY PROVISIONS

An Eligible Customer that has previously taken bundled service may, at any time, return to power service from West Kootenay Power at a rate calculated to ensure Fair Treatment, subject to the conditions set out below, West Kootenay Power will make reasonable efforts to accommodate returning Eligible Customers as quickly as possible.

Returning Eligible Customers and new Eligible Customers who initially chose an alternative supplier should receive rates reflecting the embedded cost of service within the lesser of:

- the period in which West Kootenay Power can adjust its supply portfolio to serve these Eligible Customers, consistent with Fair Treatment; or
- two years from the date of their notice to return to West Kootenay Power's supply.

For the interim period (that is, the lesser of the time it takes West Kootenay Power to adjust its supply portfolio or two years) West Kootenay Power may charge rates reflective of its additional cost of serving these Eligible Customers over the interim period, while maintaining Fair Treatment. If market circumstances are such that market energy is reasonably anticipated to be less expensive than West Kootenay Power's embedded cost of power for the interim period, then the Eligible Customers will return to embedded cost tariffs immediately.

APPEARANCES

G.A. FULTON	British Columbia Utilities Commission, Counsel
D.M. RUSH	West Kootenay Power Ltd.
J. CHRISTIAN	British Columbia Hydro and Power Authority
J. YARDLEY	Columbia Basin Trust
D. CRAIG	Interior Municipal Electric Utilities
R.B. WALLACE J. CHAMPION	Joint Industry Electricity Steering Committee
R.J. GATHERCOLE	Consumers' Association of Canada (B.C. Branch) British Columbia Old Age Pensioners' Organization, Council of Senior Citizens' Organizations of B.C., Federated Anti-Poverty Groups of B.C., Senior Citizens' Association of B.C., End Legislated Poverty, Kootenay Okanagan Electric Consumers' Association
C. REARDON M. ELLISON	Association for the Advancement of Sustainable Energy Policy

C.B. LUSZTIG

Commission Staff

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ROBERT H. HOBBS
GEORGE ISHERWOOD
RICK SPIKER

Columbia Basin Trust – Panel

JOSH SMIENK
KEN EPP

LIST OF EXHIBITS

	Exhibit No.
<u>TRANSMISSION ACCESS</u>	
West Kootenay Power Ltd. - Transmission Access Application, as Revised, dated July 1998	1A
West Kootenay Power Ltd. - Transmission Access Application, Information Requests, dated October 1, 1998	1B
West Kootenay Power Ltd. - Transmission Access Application, Direct Testimony, dated October 7, 1998	1C
B.C. Utilities Commission, Orders No. G-29-98 dated March 19, 1998; G-44-98 dated May 6, 1998; and G-73-98 dated August 20, 1998	2
Affidavit of Publication, dated October 14, 1998	3
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West Kootenay Power Ltd. - Transmission Access Application, dated March 19, 1998	5
West Kootenay Power Ltd. - Revision to the Original Transmission Access Application, dated July 31, 1998	6
Direct Testimony of Mr. Fussell Exhibit B for Identification now marked	B 7
Letter from Cominco Ltd. (Trail Operations) to West Kootenay Power Ltd., dated April 10, 1996	8
Letter from Cominco Metals (a Division of Cominco Ltd.) to West Kootenay Power Ltd., dated January 20, 1987	9
Evidence of Mr. Lazar, Association for the Advancement of Sustainable Energy Policy Exhibit A for Identification now marked	A 10
<u>ACCESS PRINCIPLES</u>	
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B.C. Utilities Commission, Order No. G-113-98, dated December 11, 1998	14
West Kootenay Power Ltd. - Access Principles Application responses to CBT Power Corporation Information Request No. 1, dated January 29, 1999	15

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SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC V6Z 2N3 CANADA
web site: <http://www.bcuc.com>



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-60-14

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

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

and

**the British Columbia Hydro and Power Authority
Application for Approval of Rates between
BC Hydro and FortisBC Inc. with regards to Rate Schedule 3808,
Tariff Supplement No. 3 – Power Purchase and Associated Agreements,
and Tariff Supplement No. 2 to Rate Schedule 3817**

BEFORE: L.A. O'Hara, Panel Chair/Commissioner
B.A. Magnan, Commissioner May 6, 2014
R.D. Revel, Commissioner

O R D E R

WHEREAS:

- A. By Orders G-27-93, G-85-93 and G-48-09 the British Columbia Hydro and Power Authority (BC Hydro or Applicant) has supplied electricity to FortisBC Inc. (FortisBC or Co-signatory) to meet a portion of its load service obligations, pursuant to a 20 year Power Purchase Agreement under Tariff Supplement No. 3 (1993 PPA), at rates set out in BC Hydro Rate Schedule 3808 (RS 3808). The 1993 PPA commenced on October 1, 1993, and was set to expire on September 30, 2013;
- B. On May 24, 2013, BC Hydro filed an application with the British Columbia Utilities Commission (Commission) requesting approval, pursuant to sections 58 to 61 of the *Utilities Commission Act*, to replace the existing 1993 PPA with a New Power Purchase Agreement (New PPA), an Imbalance Agreement, an Energy Export Agreement and a Master Accounting Agreement, and to make associated amendments to RS 3808. BC Hydro also requested approval for an amended and restated General Wheeling Agreement under Tariff Supplement No. 2 to Rate Schedule 3817 (Application);
- C. On May 27, 2013, FortisBC filed a twenty-six page letter in support of the Application (Letter of Support);
- D. FortisBC, the British Columbia Pensioners and Seniors Organization *et al*, British Columbia Sustainable Energy Association and Sierra Club of British Columbia, Commercial Energy Consumers' Association of British

Columbia, British Columbia Municipal Electrical Utilities, Zellstoff Celgar Limited Partnership (Celgar), Industrial Customers Group, Vanport Sterilizers, Mr. Norman Gabana, Morgan Stanley Capital Group (Morgan Stanley) and Mr. Alan Wait registered as Interveners in the proceeding;

- E. The Procedural Conference, held on July 29, 2013, was attended by BC Hydro and all of the Registered Interveners other than Morgan Stanley and Mr. Norman Gabana;
- F. On August 1, 2013, by Order G-117-13 and attached Reasons for Decision, the Commission defined the scope of the proceeding; ordered that the Application be heard by way of a written hearing in accordance with a set Regulatory Timetable and directed that upon written acceptance from BC Hydro and FortisBC, the 1993 PPA and the currently approved RS 3808 are to remain in effect until such time as the Commission determines otherwise;
- G. On September 16, 2013, the Commission received written acceptances from BC Hydro and FortisBC for the continuation of the 1993 PPA and RS 3808 as requested by Order G-117-13;
- H. On December 13, 2013, the Commission sought Supplemental Submissions on certain parts of section 2.5 of the New PPA as they related to FortisBC's customers with self-generation;
- I. On April 9, 2014, the Commission received a letter from BC Hydro, in which BC Hydro acknowledges a requirement for greater transparency for determination of customer-specific baselines and Contracted Generator Baselines, recommends a consultation process with FortisBC and stakeholders and proposes amendments to section 2.5 of the New PPA; and
- J. The Commission sought submissions regarding BC Hydro's proposal from parties in accordance with a timetable that concluded the comment process on April 25, 2014.

NOW THEREFORE for the reasons stated in the Decision issued concurrently with this Order, the Commission orders pursuant to sections 59-61 of the *Utilities Commission Act* as follows:

1. The Application as amended is approved with an effective date of July 1, 2014.
2. BC Hydro is directed to initiate a consultation process that will result in an application for the New PPA Section 2.5 Guidelines by November 1, 2014. Once the Guidelines have been approved by the Commission, they are to be added to the New Power Purchase Agreement as an appendix.
3. Until the addition of Commission-approved New PPA Section 2.5 Guidelines as an appendix to the New Power Purchase Agreement, the net-of-load methodology will be applied.
4. Pursuant to section 61 of the *Utilities Commission Act*, BC Hydro is directed to file the amended tariffs within 15 business days of the date of this Order.

**BRITISH COLUMBIA
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5. FortisBC Inc. is directed to initiate a concurrent consultation process in its service territory to address or ensure:

- (i) the potential benefits of self-generation;
- (ii) the 1999 Access Principles in the context of self-generating customers;
- (iii) if the GBL methodology is proposed, GBL Guidelines for both idle historic self-generation and new self-generation; and
- (iv) arbitrage is not allowed.

FortisBC Inc. is further directed to file a resultant Self-Generation Policy application with the Commission by December 31, 2014, that establishes high level principles for its service territory.

DATED at the City of Vancouver, in the Province of British Columbia, this 6th day of May 2014.

BY ORDER

Original signed by:

L.A. O'Hara
Panel Chair and Commissioner

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-67-14**

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC V6Z 2N3 CANADA
web site: <http://www.bcuc.com>



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

and

**FortisBC Inc.
Application for Stepped and Stand-By Rates for Transmission Voltage Customers**

BEFORE: L.A. O'Hara, Commissioner
R.D. Revel, Commissioner
May 26, 2014

O R D E R

WHEREAS:

- A. On March 28, 2013, FortisBC Inc. (FortisBC) filed an application with the British Columbia Utilities Commission (Commission) for approval of new rates for transmission voltage customers (the Application) under sections 58-61 of the *Utilities Commission Act*;
- B. The Application requests the following:
- i. Approval for a conservation Stepped Rate, with Customer Baseline Load (CBL) Guidelines, for all transmission voltage customers (Rate Schedule (RS) 34), an exempt Flat Rate (RS 36) as well as approval to close the existing Flat Rate(RS 31) and transfer customers to RS 34 and RS 36, as appropriate;
 - ii. Approval for a Non-Embedded Cost Power (NECP) Rate Rider which incorporates the Entitlement Principals and the Matching Methodology into a rate;
 - iii. Approval for a Stand-by Service Rate (RS 37);
 - iv. Approval to close the transmission voltage customer Time-of-Use Rate (RS 33); and
 - v. A determination of the retroactive application of rates to Zellstoff Celgar Limited Partnership (Celgar);
- C. British Columbia Hydro and Power Authority (BC Hydro), Celgar, International Forest Products Limited (Interfor), the British Columbia Pensioners' and Seniors' Organization *et al.*, and the BC Municipal Electric Utilities registered as Interveners and Tolko Industries Ltd. registered as an Interested Party;
- D. On April 10, 2013, the Commission issued Order G-55-13, establishing a Regulatory Timetable for its review of the Application that was subsequently amended by Orders G-61-13, G-85-13, G-90-13, G-155-13, G-12-14, and G-18-14;

- E. On May 28, 2013, BC Hydro filed an application with the Commission for approval to replace the existing 1993 Power Purchase Agreement (PPA) with FortisBC with a New PPA under RS 3808 (RS 3808 Proceeding). The RS 3808 Proceeding addresses certain issues which overlap with parts of this Application including issues that relate to the NECP Rate Rider;
- F. On January 31, 2014, by Order G-12-14, the Commission determined that its review of the issues in the Application that do not overlap with the issues being considered in the RS 3808 Proceeding would proceed by way of a written hearing (RS 34 and RS 36 excluding its application to customers with self-generation, RS 31, RS 37 and RS 33). The NECP rate rider, the application of the stepped rate to FortisBC's customers with self-generation, and the retro-active application of rates to Celgar would be deferred until after the Commission made a final determination on the RS 3808 Proceeding; and
- G. In its Final Submission dated March 19, 2014 FortisBC requested that:
- a) FortisBC's Application for a Stepped Rates (RS 34, CBL Guidelines, and RS 36) should not be approved at this time; and
 - b) Its request to close RS 31 and 33 be withdrawn if the Stepped Rates are not approved.

NOW THEREFORE the British Columbia Utilities Commission (Commission) orders as follows:

1. FortisBC Inc.'s (FortisBC) request to open Rate Schedule 34 "Large Commercial Service – Transmission Stepped Rate" and the attached Customer Baseline Load Guidelines is denied.
2. FortisBC's request to open Rate Schedule 36 "Large Commercial Service – Transmission Flat Rate" is denied.
3. The Commission consents to the withdrawal of FortisBC's request to close Rate Schedule 31 "Large Commercial Service – Transmission Flat Rate" and Rate Schedule 33 "Large Commercial Service – Transmission Time-of-Use."
4. The Commission declines to approve Rate Schedule 37 "Stand-by Service Rate" as proposed in the Application at this time.
5. FortisBC is directed to file with the Commission, by June 26, 2014, a revised Rate Schedule 37 "Stand-by Service Rate" incorporating the findings in the attached Decision and addressing both the restrictions on, and availability of, stand-by service. Further process regarding this filing will be decided by the Commission in due course.

BRITISH COLUMBIA
UTILITIES COMMISSION

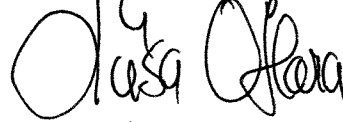
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6. FortisBC is directed to submit a filing on the appropriate Contract Demand level in the Underlying Rate and the appropriate level of Stand-by Contract Demand applicable during periods of stand-by service, for Zellstoff Celgar Limited Partnership (Celgar), to be submitted in conjunction with the revised Stand-by Rate.
7. FortisBC is directed to comply with all other directives in the Decision issued concurrently with this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 26th day of May 2014.

BY ORDER



L.A. O'Hara
Commissioner

Appendix B

CONSULTATION MATERIALS



Corey Sinclair
Manager, Regulatory Affairs

FortisBC Inc.
Suite 100 – 1975 Springfield Road
Kelowna, BC V1Y 7V7
Tel: (250) 469-8038
Fax: 1-866-335-6295
www.fortisbc.com

Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

September 8, 2014

Via Email

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Mr. Brian Merwin
bmerwin@mercerint.com

Dear Mr. Merwin,

Re: Public Consultation – FortisBC Self-Generation Policy Application

Purpose: The purpose of this communication is to invite participation in consultation activities related to the filing by FortisBC of a Self-Generation Policy Application (the “Application”) as directed by the BC Utilities Commission in Order G-60-14.

Response Requested: If, after reviewing the attached materials, you wish to take part in consultation activities related to the Application, please advise FortisBC by responding and including contact information to Corey Sinclair, Manager of Regulatory Affairs, FortisBC:

corey.sinclair@fortisbc.com or 250-469-8038 by **September 15, 2014**

Parties that do not reply by September 15, 2015 will not be included in future communication.

FortisBC will contact those that wish to take part in consultation to set up meetings to review the issues and collect initial input.

Introduction

Over the past 5 years, FortisBC has been involved in a number of regulatory processes concerning customers taking service at transmission voltage generally, as well as some specifically regarding customers with self-generation (both current and potential customers).

As each of the parties to which this communication has been sent have been involved to some extent in one or more of those processes, they will not be reviewed in detail here, however a list of these related processes is:

- FortisBC 2009 Coast of Service and Rate Design Application
- Tolko 2011 Kelowna Division Incremental Power Sales
- Zellstoff-Celgar 2011 Complaint against FortisBC Inc.
- FortisBC Inc. 2012 Compliance-Guidelines Non-PPA Power Entitlement
- FortisBC Inc. 2012 Purchase of the Utility Assets of the City of Kelowna
- BC Hydro 2014 PPA - RS 3808, TS No. 2 & 3
- FortisBC Inc. 2014 Stepped and Stand-By Rates for Transmission Voltage Customers

A number of issues regarding the rights and obligations of both customers and FortisBC with respect to the provision of transmission service and the disposition of self-generation have been explored in these processes. However, it is not necessary to review all of the topics as the Commission has, in Orders G-60-14 and G-67-14, defined the scope of the Application. There is however, an opportunity for both FortisBC and parties to the consultation to raise issues for discussion in addition to the scope provided by the Commission, provided that they are not issues that have already be resolved through one of the related processes listed above.

Scope of Issues for Consultation

The scope of the Application has been largely determined by the Commission determinations contained on G-60-14 and G-67-14. As noted above, FortisBC will consult on a number of additional items that it believes should form part of the Application and will also consider additional area of interest raised by participants in the consultation process.

The following is drawn directly from Order G-60-14 Directive 5,

FortisBC Inc. is directed to initiate a concurrent consultation process in its service territory to address or ensure:

- i. the potential benefits of self-generation;*
- ii. the 1999 Access Principles in the context of self-generating customers;*
- iii. if the GBL methodology is proposed, GBL Guidelines for both idle historic self-generation and new self-generation; and*
- iv. arbitrage is not allowed.*

FortisBC Inc. is further directed to file a resultant Self-Generation Policy application with the Commission by December 31, 2014, that establishes high level principles for its service territory.

In addition, Commission Order G-67-14 was issued on May 26, 2014 in regard to the Company's *Application for Approval of Stepped and Stand-By Rates for Transmission [voltage] Customers.*

In that Decision, the Commission indicated that the Self-Generation Policy Application is the appropriate place to address a number of issues that arose during that process. The Commission has indicated that the costs and benefits of distributed generation are relevant considerations in determining certain elements of the rates charged to self-generating customers.

In Section 3.8.5.1 of G-67-14, the Commission outlined a set of principles that it considered to be a reasonable starting point in the development of principles used to determine both the costs and the benefits distributed generation provides to BC. These were:

1. Economic efficiency
2. Fairness
3. Consideration of BC Energy Policy
4. Simplicity and transparency
5. Stability

Specifically, the Commission said,

“...for future stand-by customers the Panel finds these principles should not be addressed in this Proceeding but are better suited to be determined through the FortisBC’s Comprehensive Self-Generation Policy Application that has been directed pursuant to Order G-60-14.”

More discussion on these principles can be found in the noted section of G-67-14.

Conclusion

It is the intention of FortisBC to file as directed, on or before December 31, 2014 a high level policy document, incorporating the views and input of the parties to the consultation activities. This Application will provide guidance on the filing of any future policy, rate, or tariff that concerns customer self-generation within the FortisBC service area.

To discuss this matter further, please contact the undersigned.

Sincerely,

FORTISBC INC.

Corey Sinclair
Manager, Regulatory Affairs

Attachments:

British Columbia Utilities Commission Order G-60-14
British Columbia Utilities Commission Order G-67-14

Initial Invitee List for Consultation

	<u>Customer</u>	<u>Location</u>
1	Weyerhaeuser	Vancouver
2	BCMEU	Nelson
3	BCOAPO	Vancouver
4	Roxul Inc.	Grand Forks
5	Zellstoff Celgar	Vancouver
6	British Columbia Hydro and Power Authority	Vancouver
7	Mr. Alan Wait	Grand Forks
8	Irrigation Ratepayers Group	Vancouver
9	International Forest Products Ltd	Grand Forks
10	Mr. Andy Shadrack	Kaslo
11	Industrial Customers Group	Vancouver
12	Mr. Norm Gabana	Trail
13	BC Sustainable Energy Association (BCSEA)	Vancouver
14	Vanport Sterilizers Inc.	Vancouver
15	Commercial Energy Consumers Association of British Columbia	Vancouver
16	Tolko Industries Ltd.	Vernon
17	Waneta Expansion Limited Partnership	Castlegar

Thank you for your recent participation regarding the items set out in Directive 5 of BCUC Order G-60-14 regarding FBC's pending Self Generation Policy Application (SGPA). As we have concluded our initial meetings with interested stakeholders regarding this topic, we are providing below a summary of FBC's initial positions arising from the consultation process.

It is our intention to include with the Application the comments and positions of the parties that we have engaged with in the consultation discussions. Attached for your review is summary of our interpretation of your positions based on what we recorded during our initial meeting. Please ensure that we have characterized your positions accurately. Below, we ask that you provide a letter of confirmation, clarification, and/or elaboration of your initial high-level positions where necessary. This request will form the first part of the consultation process that will help FBC in the development of its SGPA. As we expect that the regulatory process that results from our filing will provide an opportunity to provide more expansive submissions on the topic areas, it is only necessary at this time to provide agreement or edits to the summary.

Background

On May 6, 2014, the BCUC issued Order G-60-14 in the matter of Rate Schedule 3808, Tariff Supplement No. 3 – Power Purchase and Associated Agreements, and Tariff Supplement No. 2 to Rate Schedule 3817. Directive number 5 of that Order directed FBC to submit to the Commission by December 31, 2014 an Application as described by the following excerpt:

FortisBC Inc. is directed to initiate a concurrent consultation process in its service territory to address or ensure:

- I. the potential benefits of self-generation;**
- II. the 1999 Access Principles in the context of self-generating customers;**
- III. if the GBL methodology is proposed, GBL Guidelines for both idle historic self-generation and new self-generation; and**
- IV. arbitrage is not allowed.**

FortisBC Inc. is further directed to file a resultant Self-Generation Policy application with the Commission by December 31, 2014, that establishes high level principles for its service territory.

ITEMS TO ADDRESS AND SUMMARY OF POSITIONS

IV. Arbitrage

The avoidance of arbitrage, though listed fourth in Directive 5 of G-60-14, is an overarching condition that FBC is directed to ensure in the development of its SGPA. FBC believes that the Commission is clear that arbitrage is not to be permitted, and therefore views this item as less of a policy issue to be considered by FBC than a test to be applied to the conclusions reached by the Company with respect to self-generating customers. For this reason, the topic is addressed first.

FBC POSITION

FBC is of the view that arbitrage in the context of self-generation results when the utility supplies an increased amount of embedded cost power to a self-generating customer that is not required due to an increase in the physical load of that customers' plant. FBC agrees with the Commission that such arbitrage should not be permitted (except as permitted through the use of a Commission approved Generation Baseline (GBL). The practical application of this position to the service of self-generating customers would mean that the export of self-generated power below either the customer's load or a Commission approved GBL would not be permitted.

FBC defines embedded cost power to be the weighted average cost of power supplied from all sources available to FBC. Specifically, FBC believes its embedded cost power includes power sourced from:

1. FBC generation assets;
2. the Power Purchase Agreement with the Columbia Power Corporation for power generated from the Brilliant Dam (Brilliant PPA);
3. purchases from IPPs;
4. purchases from market imports; and
5. BC Hydro's embedded cost power through RS 3808.

The Company is aware that no universally accepted definition of arbitrage for use in self-generation related policies in British Columbia currently exists. FBC believes that such a definition would be useful and would be amenable to participating in any Commission process that includes as an outcome a clarification of this issue.

I. THE POTENTIAL BENEFITS OF SELF-GENERATION

The Potential Benefits of Self-Generation became an issue for consideration after it was raised in the submissions of the BC Municipal Electric Utilities. (BCMEU) (Specifically the potential benefits of self-generation as identified by BCMEU in its Supplemental Submission (Exhibit C4-5).) The Commission, in Order G-60-14 comments:

“Perhaps it is the time to ask what benefits there might be to the Province as a whole from an economic development perspective, if the role and responsibilities of self-generators was more clearly defined.”

For convenience, a copy of BCMEU’s submission is attached for review.

FBC POSITION

In general, FBC believes that the policies that govern the relationship between FBC and its self-generating customers should consider those elements that can impact the rates of customers in FBC’s service area.

Potential benefits of self-generation can exist so long as they result in positive operational impacts to the FBC system, which would ostensibly benefit the customers served in its service territory through rate mitigation. For example, the potential benefits of self-generation could be realized if operational savings resulted from outcomes, such as:

- a) increased system reliability;
- b) improved power quality;
- c) the provision of ancillary services;
- d) the reduction of peak power requirements through onsite generation;
- e) the provision of reactive power or volt-ampere reactive;
- f) an emergency supply of power;
- g) offsets to investments in generation, transmission, or distribution facilities that would otherwise be recovered through rates;
- h) diminished land use effects and right-of-way acquisition costs; or
- i) a reduction to the vulnerability of a system to terrorism.

II. The 1999 Access Principles in the context of self-generating customers

In 1999, West Kootenay Power filed an Access Principles Application (APA) as a means of opening its transmission system to all Eligible Customers. The goal of open access was to encourage the development of a competitive generation market resulting in efficient resource allocation. The purpose of the Access Principles is to ensure that this occurs in a way that results in the fair treatment of utility shareholders, customers who remain with Utility supply, and Eligible Customers who choose to obtain some or all supply from non-Utility resources. For convenience, a copy of the 1999 Access Principles is attached.

FBC POSITION

In FBC's view, the Access Principles were developed for use in circumstances that are fundamentally different than the disposition of a customer's self-generation, and that applying the Access Principles to self-generation use is a fundamental misapplication of the Access Principles under the conditions included by the Commission in Order G-27-99 and accompanying Decision. Further, FBC believes that the instance of a self generating customer exporting at market rates while simultaneously being served their full or partial mill load at embedded rates by the utility cannot exist under the Commission's direction to ensure arbitrage is not allowed.

III. If the GBL methodology is proposed, GBL Guidelines for both idle historic self-generation and new self-generation

FBC POSITION

After initial consultation with all interested stakeholders, FBC understands there is value in proposing a GBL methodology to determine a Generator Baseline for self-generators in its service territory. However, in light of BC Hydro's most recent filing on November 1, 2014 with respect to its proposed amendments to Section 2.5 of the PPA and GBL methodology, which requested further process, FBC believes it is prudent to await the outcome of that proceeding before introducing FBC specific GBL guidelines.

Consultation Required by Order G-67-14

Included in Order G-67-14 was a determination that FBC should include in the filing of the SGPA its proposal related to the principles provided by the Panel to determine the “Stand-by Contract Demand” for self-generating customers that opt to use any Stand-by Rate ultimately approved for FBC. There was little discussion of this aspect of the SGPA and FBC has not yet developed a position on this matter.

NEXT STEPS

Upon receiving letters of confirmation, elaboration and/or clarification of each stakeholder’s positions on the aforementioned items, FBC will circulate a combined position summary to all stakeholders for review. Please provide any submissions on the topics discussed above by November 21, 2014. These submissions can be addressed by e-mail to electricity.regulatory.affairs@fortisbc.com

Thank you for your participation.

Regards,



Corey Sinclair
Manager, Regulatory Affairs,
FortisBC Inc.

Appendix C

BCMEU EXHIBIT C4-5

BC~MEU

*British Columbia Municipal Electrical Utilities
Penticton, Grand Forks, New Westminster, District of Summerland, Nelson Hydro*



January 27, 2014

VIA ELECTRONIC MAIL

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, B.C.
V6Z 2V3

Attention: Ms. Erica Hamilton, Commission Secretary

**Re: British Columbia Hydro and Power Authority (BC Hydro)
Application for Approval of Rates between BC Hydro and
FortisBC Inc. (FortisBC) with regards to Rate Schedule 3808,
Tariff Supplement No. 3 – Power Purchase and Associated
Agreements, and Tariff Supplement No. 2 to Rate Schedule 3817,
Project No. 3698720**

Dear Sirs/Mesdames:

The British Columbia Municipal Electrical Utilities (BCMEU) sets out its response to the questions posed in the Commission's December 13, 2013 (Exhibit A-17) correspondence. Attached please find our Intervener Submissions to FortisBC Inc. & BC Hydro with respect to the above-noted matter.

A copy of this letter including Intervener Submissions have also been forwarded to BC Hydro, FortisBC and registered interveners by e-mail.

If you have any questions regarding the foregoing, please do not hesitate to contact the undersigned.

Yours truly,

Marg Craig

Office Administrator

Sent for: Alexander Love, Nelson Hydro General Manager on behalf of:

BRITISH COLUMBIA MUNICIPAL ELECTRICAL UTILITIES(BCMEU)

Suite 101 - 310 Ward Street V1L 5S4

Phone: 250-352-8230 website: www.nelson.ca

BC~MEU

British Columbia Municipal Electrical Utilities

Cities of Penticton, Grand Forks, New Westminster, District of Summerland, Nelson Hydro



Intervener Submission from British Columbia Municipal Electrical Utilities (BC~MEU)

Re: British Columbia Hydro and Power Authority (BC Hydro) Application for Approval of Rates between BC Hydro and FortisBC Inc. (FortisBC) with regards to Rate Schedule 3808, Tariff Supplement No. 3 – Power Purchase and Associated Agreements, and Tariff Supplement No. 2 to Rate Schedule 3817, Project No. 3698720

January 27, 2014

Preamble

It is in the interest of BCMEU members and indeed the whole province, to encourage self-generators to add new generation and to encourage non-generators to add generation. The current economic incentive for a load serving entity to invest in new generation on a net of load basis is very low – at best they are avoiding power purchase at embedded cost rates. This has been recognized by most of the parties and so the concept of incremental generation is used to distinguish from native generation.

Benefits of self-generators;

While much discussion has been had about the negative impacts to BC Hydro of a self-generator serving their own load with embedded cost power while exporting the self-generation, there has been little discussion of the benefit to BC Hydro of a self-generator installing new generation to serve their own load first which then frees up energy and capacity for BC Hydro to make export opportunities on the market – a benefit to BC Hydro rate payers at the expense of the self-generators.

We put forth that it is in the interest of all parties for BC entities (e.g. load serving and/or self-generators) to be encouraged to invest in more self-generation. It benefits the self-generator by providing an economic opportunity; it benefits BC Hydro by acting as load reduction. For example Nelson invested in new generation in 1994/95 which it is using to serve its own load – thereby reducing the amount of power BC Hydro would otherwise sell to FortisBC – hence providing an opportunity for BC Hydro to market more of its own energy. As BC Hydro points

out, this is a zero sum game – provided you look at the province as a whole – in this case it is a lost opportunity for Nelson and a windfall for BC Hydro.

What is needed is a clear and concise regulatory regime for the parties to work within. We suggest that a set of rules around self-generation might contemplate some or all of;

- Defining a marker in time after which new or renewed generation is deemed to be incremental ,
- A reasonable time period for the incremental generation to be sold on the market, to other entities or used for serving own load as best suits the entity building the generation (perhaps 20 years, or 10 years after the initial capital is paid for),
- That incremental generation be rolled in the Powerex pool and Powerex makes the best use of the generation and pays the generation owner a pro-rated share of the Powerex profit margin.

In none of the self-generator energy sales opportunities that we are aware of has it been contemplated that BC Hydro embedded cost energy would be sold for an arbitrated profit, only that BC Hydro embedded cost energy would be used to serve loads in BC, while a self-generator sells their self-generated energy.

The BC~MEU further submits that it is in the interest of all parties including BC Hydro that FortisBC and/or its customers should be able to store embedded cost energy for the purposes of load shaping and for this reason the section 2.5 restrictions on storing energy are not reasonable.

Question #1. Why are restrictions relating to FortisBC's self-generator customers still necessary in the New PPA under the current environment?

We believe that in the current environment these restrictions are not required to protect BC Hydro, however we also accept that the environment may change over the course of the PPA. We further believe that the PPA is not the appropriate place to set regulations for self-generators and that the self-generators, FortisBC and BC Hydro would be better served by having self-generator regulations separate and standalone.

We note that the restrictions on self-generators in the previous PPA was the result of a unilateral application by BC Hydro (FortisBC opposed), as a regulatory expedient manner to deal with their concern. To our knowledge it was not chosen as the best solution only as the quickest.

Our understanding is that the PPA renewal was a lengthy process and that BC Hydro still feels it needs protection and for the sake of expediency in renewing the PPA that including these restrictions was the best pragmatic solution at hand.

Therefore we believe the answer to the question is - Because including the restrictions facilitates a PPA renewal agreement. We also believe that the restrictions do not properly belong in the PPA agreement.

Question #2. What risks, if any, are BC Hydro still exposed to under the New PPA, and do those risks result in any significant negative impacts to BC Hydro or its ratepayers?

We are not aware of any risks BC Hydro is exposed to under the proposed New PPA.

If the question means in the context of the New PPA with Section 2.5 removed, then we feel that in the current market conditions from a practical perspective BC Hydro is exposed to little risk. Even if a FortisBC self-generation customer were to export energy, BC Hydro is still exposed only to making energy sales to FortisBC up to the limits of the New PPA agreement – limits BC Hydro has already accepted.

Question #3. If FortisBC was free to establish GBLs, or other mechanisms, with its self-generator customers without any restrictions to RS 3808 power, what benefits would this provide to FortisBC, and what risk would it pose to BC Hydro and its ratepayers?

We agree with BC Hydro point 42, 43 and 44 in their Jan 13, 2014 exhibit B1-16 that the net of load approach does not strike the right balance, however we differ in that our view includes that Net of Load approach can have unintended consequences if a FortisBC customer has an EPA with any organization (not just BC Hydro).

We believe it is in the interest of the self-generators, FortisBC and BC Hydro, to encourage customers to install self-generation even if it does not result in net of load generation, otherwise the incentive will be separate the generation entities from the load serving entities so that all new generation is net of load since the generation entities would have zero load or worse yet invest their capital in new generation outside of BC.

New generation in BC is a direct asset to the owner and an indirect asset to the other utilities particularly if there is some partial or future obligation to serve own load.

Question #4. On the assumption that the Commission finds section 2.5 of the New PPA to be unjust, unreasonable or unduly discriminatory because self-generator customers have no meaningful input in setting GBL's for service in the FortisBC service territory, how can the Commission Panel approve the Application as just and reasonable under sections 58-61 of the Utilities Commission Act?

BC~MEU is of the view that if the Commission finds any section of the New PPA to be unjust, unreasonable or unduly discriminatory that the Utilities Commission Act does prevent approving the application, or requires an approval with amendments.

We agree with FortisBC point 22 in their Jan 20th, 2014 Exhibit C1-24 submission that unnecessary time and cost in future proceedings should be avoided and therefore we believe that BC Hydro should be provided enough comfort that it does not feel a need to intervene in FortisBC hearings purely for the reason of being concerned about self-generation matters.

BC~MEU agrees that it is not in the best interests of the interveners nor of the electric utility rate payers in general to have regulatory complexity such as surrounds the self-generator issue. We

therefore support the concept of simplifying the requirements by removing section 2.5 from the proposed PPA and further that the regulations for self-generator energy exports be handled in a separate standalone document.

In order to address the BC Hydro concern of being exposed now if section 2.5 were removed, even though the current environment makes it unlikely, section 2.5 could be left in the PPA with a defined expiry term for this section only. Expiry would occur upon Commission approval of a set of self-generator rules for application throughout the province.

We view this as contributing to regulatory efficiency by;

- a) Providing a mechanism to move forward with the PPA renewal now, and
- b) Helping to make self-generator rules more standalone without ties into various other agreements.

Appendix D

INTERVENER SUBMISSIONS



December 5, 2014

Via Email

FortisBC Inc.
Suite 100-1975 Springfield Road
Kelowna, BC
V1Y 7V7

Attention: Mr. Corey Sinclair
Manager, Regulatory Affairs

Dear Mr. Sinclair:

Celgar acknowledges receipt of the "FBC Self-Generation Application Consultation Summary" (FortisBC Summary) dated November 10, 2014, which was circulated by email on the same date. By the FortisBC Summary you have requested comments, by November 21, 2014, regarding a document you refer to as "Items to Address and Summary of Positions – Zellstoff-Celgar" (Celgar Summary) that is intended to provide a summary of our meeting on September 17, 2014. Celgar provides the following two comments regarding the Celgar Summary.

First, I sent you a letter dated September 12, 2014 in which I said the following:

In the past, FortisBC has advanced positions that would have captured, if approved, the benefits of self-generation not for investors, but for its shareholders or for other customers. In good faith, I accept your invitation to consult expecting that FortisBC will throughout the consultation recognize that the benefits of self-generation belong to investors.

These views, perhaps because they were expressed before our meeting, are not incorporated in the Summary. Celgar requests that these views be incorporated into the Celgar Summary.

Second, in reference to item (iii) of the Summary, the Summary should include the following comment: GBL Guidelines should incorporate principles from the 1999 APA and principles related to the obligation to serve.

With these two revisions, Celgar believes that the Celgar Summary is sufficient for its intended purpose of providing Celgar's "initial high-level positions", as per your introductory comments in the FortisBC Summary. However, comments attributed to Celgar in the Celgar Summary should not be construed as support for any position advanced by FortisBC in this consultation or in any future regulatory proceeding. As you suggest, this is to form the first part of the consultation process, and that all parties, including Celgar, will have an opportunity to provide more expansive submissions in future regulatory processes.

In addition to the requested comments on the Celgar Summary, Celgar provides the following two "high-level" comments on the FortisBC Summary.

First, the FortisBC Summary states: FortisBC believes that the "Commission is clear that arbitrage is not to be permitted." Celgar disagrees. FortisBC also suggests that the Commission has not defined arbitrage. Again, Celgar disagrees. It is Celgar's view that the Commission's previously considered the definition of arbitrage (Order G-191-13, Reasons for Decision, p. 22), and that if arbitrage is not to be permitted it is "true arbitrage" referred to in Order G-191-13 that is not to be permitted. Nevertheless, Celgar does agree that such a definition

would be useful and would be amenable to participating in any Commission process that includes as an outcome clarification of both the definition of arbitrage, and whether arbitrage is to be permitted or not.

Second, the FortisBC Summary states: "applying the Access Principles to self-generation use is a fundamental misapplication of the Access Principles". The application of the APA to self-generation has already been considered and determined by the Commission (Order G-188-11, Reasons for Decision, p. 37 and p. 40). FortisBC should not use the directive to consult with its customers as a means to revisit this or any other decision of the Commission. Especially when such effort has only one purpose and that is to capture "the benefits of self-generation not for investors, but for its shareholders or for its other customers."

Please identify the next steps in this consultation process, including whether you anticipate further meetings or a joint workshop with BC Hydro.

Yours truly,



Brian Merwin
Vice President

Summary of Positions for Tolko

iv. Arbitrage

Tolko believes that a GBL methodology based on historic generation would effectively eliminate arbitrage.

i. The Potential Benefits of Self-Generation

The benefits of self-generation to all FortisBC customers are:

- reduced transmission infrastructure from distributed generation
- improved self-sufficiency of the FortisBC system
- voltage support, etc.
- reduced system losses if located next to load

ii. Access principles in the context of Self-Generation

Tolko believes that as long as suitable safeguards against arbitrage are in place, self-generating customers should be able to access the transmission system and be capable of simultaneously buying energy at embedded rates while selling energy to a third party.

iii. If the GBL methodology is proposed GBL guidelines for both historic self-generation and new self-generation.

Tolko's position:

- Any generation that is net-of-load for any self-generator, at any time, should be eligible for sale using access to the FortisBC Transmission system.
- The GBL for a self-generator is set when generation capacity is added for the purpose of electricity sales. The GBL should be set at the historic level of self-generation used to serve its own load. This GBL would remain constant unless the self-generator's load drops below the GBL, at which point net of load sales would be eligible.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER**

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC V6Z 2N3 CANADA
web site: <http://www.bcuc.com>



DRAFT ORDER

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by FortisBC Inc.
Regarding its Self-Generation Policy

BEFORE:

(Date)

WHEREAS:

- A. By Orders G-27-93, G-85-93 and G-48-09 the British Columbia Hydro and Power Authority (BC Hydro) has supplied electricity to FortisBC Inc. (FBC) to meet a portion of its load service obligations, pursuant to a 20 year Power Purchase Agreement under Tariff Supplement No. 3 (1993 PPA), at rates set out in BC Hydro Rate Schedule 3808 (RS 3808). The 1993 PPA commenced on October 1, 1993, and was set to expire on September 30, 2013;
- B. On May 24, 2013, BC Hydro filed an application with the British Columbia Utilities Commission (Commission) requesting approval, pursuant to sections 58 to 61 of the *Utilities Commission Act*, to replace the existing 1993 PPA with a New Power Purchase Agreement (New PPA), an Imbalance Agreement, an Energy Export Agreement and a Master Accounting Agreement, and to make associated amendments to RS 3808. BC Hydro also requested approval for an amended and restated General Wheeling Agreement under Tariff Supplement No. 2 to Rate Schedule 3817 (the New PPA Application);
- C. On May 27, 2013, FBC filed a twenty-six page letter in support of the New PPA Application (Letter of Support);
- D. FBC, the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO), B.C. Sustainable Energy Association and Sierra Club of British Columbia (BCSEA), Commercial Energy Consumers Association of

British Columbia, British Columbia Municipal Electrical Utilities (BCMEU), Zellstoff Celgar Limited Partnership (Celgar), Industrial Customers Group, Vanport Sterilizers, Mr. Norman Gabana, Morgan Stanley Capital Group (Morgan Stanley) and Mr. Alan Wait registered as Interveners in the proceeding

- E. On September 16, 2013, the Commission received written acceptances from BC Hydro and FBC for the continuation of the 1993 PPA and RS 3808 as requested by Order G-117-13;
- F. On December 13, 2013, the Commission sought Supplemental Submissions on certain parts of section 2.5 of the New PPA as they related to FBC's customers with self-generation;
- G. On April 9, 2014, the Commission received a letter from BC Hydro, in which BC Hydro acknowledged a requirement for greater transparency for determination of customer-specific baselines and Contracted Generator Baselines, recommended a consultation process with FBC and stakeholders and proposed amendments to section 2.5 of the New PPA;
- H. By Order G-60-14, the Commission directed BC Hydro to initiate a consultation process that will result in an application for the New PPA Section 2.5 Guidelines which, upon approval by the Commission are to be added to the New PPA as an appendix. BC Hydro filed the application for the New PPA Section 2.5 Guidelines on December 15, 2014;
- I. By Order G-60-14, the Commission directed FBC to initiate a consultation process in its service territory, to occur concurrently with the BC Hydro consultation related to the New PPA Section 2.5 Guidelines, to address or ensure: (i) the potential benefits of self-generation; (ii) the 1999 Access Principles in the context of self-generating customers; (iii) if the GBL methodology is proposed, GBL Guidelines for both idle historic self-generation and new self-generation; and (iv) arbitrage is not allowed;
- J. FBC was further directed by Order G-60-14 to file a Self-Generation Policy application with the Commission by December 31, 2014, that establishes high level principles for its service territory. By a letter dated December 30, 2014, the filing date for the Self-Generation Policy application was extended to January 9, 2015.
- K. FBC engaged in public consultation regarding the Self-Generation Policy application with BCOAPO, BCSEA, Nelson Hydro, Columbia Power Corporation, BC Hydro, BCMEU, and Celgar;
- L. On January 9, 2015, FBC filed its Self-Generation Policy Application which includes policy statements on the subjects of Arbitrage, the 1999 Access Principles, GBL Guidelines, and the benefits of self-generation;
- M. The Commission has reviewed the Application and concludes that FBC has fulfilled the requirement to consult on and submit high level policies as required by Order G-60-14.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER**

3

NOW THEREFORE the Commission orders as follows:

1. FBC is directed to file with the Commission, an Application for approval of GBL Guidelines no later than 90 days after the approval of either BC Hydro's Contracted GBL Guidelines or approval of the New PPA section 2.5 Guidelines, whichever occurs later. This GBL Guidelines Application should incorporate the self-generation policies as set out in Section 8 of this Application.
2. FBC is directed to file with the Commission, an Application for approval of a tariff supplement that incorporates the self-generation policies as set out in Section 8 of this Application no later than 90 days after the date of this decision or a decision in the *FortisBC Inc. 2014 Stepped and Stand-By Rates for Transmission Voltage Customers* process, whichever occurs later.

DATED at the City of Vancouver, In the Province of British Columbia, this day of <MONTH>, 2015.

BY ORDER