

Industrial Electricity Policy Review Task Force Consultation Summary

Introduction

The Terms of the Reference for the Industrial Electricity Policy Review (Review) directs the task force to consult with interested stakeholders and make public a consultation record and a Consultation Summary (Summary). The purpose of the Summary is to capture and synthesize verbal and written stakeholder input into the Review. This document revises and updates a draft summary sent to stakeholders in early May 2013. A separate Summary describes BC Hydro's views on the main issues.

In January 2013, the Ministry of Energy, Mines and Natural Gas advised interveners from the Dawson Creek-Chetwynd Area Transmission Reinforcement Certificate of Public Convenience and Necessity proceeding that the Ministry of Energy, Mines and Natural Gas would appoint a task force to undertake the Industrial Electricity Policy Review. Interested stakeholders were invited to meet with the task force and/or provide written submissions for consideration.

The task force held 27 meetings with 17 different stakeholders between January 17 and May 31, 2013. It also received 24 submissions providing general comments on industrial electricity policy and specific comments on a series of papers issued for discussion purposes. A complete list of stakeholders who met with and/or submitted materials to the task force is included in Appendix 3.3

The task force published a series of issue papers based on its Terms of Reference to spur discussion and debate with and amongst stakeholders. The Summary includes sections addressing all of the issue papers as well as an additional section that addresses other related issues brought up by one or more stakeholders. Readers are encouraged to review specific written submissions to identify specific stakeholder views. They can be found at <http://www.empr.gov.bc.ca/EPD/Pages/IndustrialElectricityPolicyReview.aspx> . They have also been distributed via email to those who requested them.

The views in this document are intended to capture the written and verbal comments, opinions and positions from stakeholders as they were presented. They do not represent the task force's position or Government policy.

Economic Development

Most stakeholders expressed concern about the rising cost of electricity supply and indicated that access to safe, reliable electricity supply at the lowest reasonable cost supports economic development. Industrial stakeholders acknowledged that development should minimize environmental impacts as much as possible, but that the current policy and legislative

framework does not strike the appropriate balance between environment and economic development objectives. One stakeholder noted that only one of the 16 provincial energy objectives listed in the *Clean Energy Act* relates to economic development. Another emphasized that minimizing environmental impact should be considered along with cost.

Industrial customers indicated that most electricity-intensive industries in BC are trade-exposed price-takers that cannot pass increased electricity costs through to their respective customers. This means that increased electricity costs must be offset through operational efficiencies that are getting more difficult to find or reduced returns that may lead to decisions to invest outside British Columbia. Large rate increases over a relatively short period of time may make some industrial customers operations uneconomic. Industrial customers indicated this would cause a ripple effect through the economy (particularly in the forest sector).

Stakeholders did not feel that BC continues to be a low-cost electricity jurisdiction. Industrial customers indicated that BC Hydro's industrial rates in some industry sectors are no longer competitive. They also made the point that BC Hydro's relatively low, cross subsidized residential rates are irrelevant when considering the competitiveness of industrial rates in British Columbia. Many stakeholders indicate that BC Hydro's low cost electricity advantage has been, and will continue to be, eroded due to BC Hydro's capital spending plans and the eventual recovery of the deferral accounts. Industrial customers felt that any provincial energy policy needs to recognize the inherent link between the level of electricity consumption and economic activity.

There was general agreement that taxpayers, rather than ratepayers, should bear the costs of achieving Government economic development objectives.

Industrial stakeholders from different sectors stated that shifting industrial demand from peak periods has a value to BC Hydro. Voluntary curtailment or setting up economic incentives for industrial customers to shift their usage could help address BC Hydro's projected capacity constraint at potentially lower cost than constructing new projects. Industrial customers provided various options for consideration.

Some industrial stakeholders expressed concerns at how long it takes BC Hydro to move through the transmission interconnection process from initial system studies to the project entering service. This has a material impact on what energy supply option an industrial customer would choose (if the customer has an option). One stakeholder suggested exploring public-private partnerships to undertake transmission projects.

Contribution Policy (Generation)

Most stakeholder input concerning this issue related to the 150 megavolt ampere (MV.A) threshold that has the potential to trigger a contribution for the full marginal cost of generation. The majority of stakeholders, particularly industrial customers, argued that the 150 MV.A threshold is arbitrary and open to "gaming" (for example, a new load requesting

service at 149 MV.A and expanding later). Industrial customers argued that the 150 MV.A threshold was unnecessarily punitive for most larger projects and could serve as a deterrent to investment.

All stakeholders recognized the underlying rationale for the 150 MV.A threshold was to prevent large electricity users from diluting BC Hydro's heritage generation resources, thereby driving up rates for other customers. However, the majority of stakeholders indicated that new customers should receive some benefit from BC Hydro's embedded cost resources and that the 150 MV.A threshold should be removed or changed. A minority of stakeholders felt the transmission extension aspects of the tariff were sufficient provided the 150 MV.A threshold was addressed. However, these actions were contingent on implementing an updated contribution policy that appropriately balances benefits and risks to existing and new customers. There were different views how this could be achieved.

Some stakeholders indicated that BC Hydro could bring forward an updated tariff to the British Columbia Utilities Commission (Commission) for review and approval. Others argued that Government should undertake a comprehensive cost/benefit analysis and set a series of economic tests when large industrial customers seek service from BC Hydro to determine if a project is in the provincial public interest, even if it caused higher rates for BC Hydro customers generally. Stakeholders presented options, but there was no agreement on the best approach.

A minority of stakeholders indicated the current generation contribution policy is appropriate. One stakeholder indicated the industrial service should not be offered below embedded cost, which is currently a feature of the Tier 1 of the Transmission Service Rate. This stakeholder also indicated that the 150 MVA should be lowered.

Environmental Policy

There was general agreement that BC-based corporations, including BC Hydro, should comply with the provincial environmental regulatory regime (e.g., environmental assessment, particulate emissions, greenhouse gas mitigation, etc.). However, there were differences of opinion beyond this basic concept.

Industrial customers indicated that BC Hydro should operate like any other utility. Accordingly, BC Hydro should not be subject to legislative obligations that do not apply to other BC-based utilities or industries. Industrial customers argue that BC Hydro should not be used to achieve environmental or social policy objectives because doing so transfers costs from taxpayers to ratepayers. Government should use other legislative or fiscal tools at its disposal to achieve these objectives.

Most non-industrial stakeholders support BC's legislated greenhouse gas (GHG) reduction targets and the policies put in place to help achieve them. Some indicate Government should maintain BC Hydro's commitment to 93% generation standard and that "clean and renewable" should exclude all natural gas-fired generation. They also indicate BC Hydro should not rely on

fossil-fuel generation to serve its customers now and in the future. Most industrial stakeholders are driven by electricity cost and felt that the 93% clean generation standard inhibits BC Hydro from acquiring lowest cost resources.

Discussions related to carbon pricing also demonstrated differences of opinion between stakeholders. Some industrial stakeholders indicated the carbon tax places BC-based companies at a disadvantage to their competitors. Most stakeholders acknowledge there will be a price on carbon going forward. However, there was no agreement on what the short or long-term price of carbon should be.

This discrepancy has a material impact on what BC Hydro would consider “low cost” when it next procures energy to meet its needs. Industrial and some non-industrial stakeholders indicate that combined-cycle gas turbines are the least cost option for flexible energy and capacity, while many non-industrial stakeholders indicate renewable independent power projects are cost-competitive when the lifecycle price of carbon is taken into account.

Both industrial and non-industrial stakeholders indicated that Government’s environmental policies/objectives related to energy (i.e., treatment of GHG emissions) are unclear, and in some cases, conflict with one another. There was agreement that environmental policy should be clear, consistent and predictable so the private sector can make informed investment decisions. Stakeholders noted three examples where inconsistencies exist

1. Current government policy and legislation would require gas-fired generation to pay both the carbon tax and offset GHG emissions;
2. Current legislation permits new gas-fired generation for liquefied natural gas export facilities, but not for domestic consumption;
3. The lack of carbon tax on imported electricity understates its true cost giving it a competitive advantage over domestic clean energy generation

Regulatory Approach

Stakeholders generally agreed that Governments have historically used their legislative powers to achieve provincial policy goals through BC Hydro. Industrial stakeholders indicated that this has led to increased costs to ratepayers without sufficient due diligence. Most stakeholders argue BC Hydro should be subject to stronger regulatory oversight by the Commission. Stakeholders understand that there may be times where Government exercises its legislative powers to pursue the greater public interest, but indicate this should be a relatively rare event so that Commission authority is not pre-empted. One noted that directives should be transparent, based on public information, and consistent with BC Hydro’s mandate to provide reliable power at low cost.

There was also general agreement that Government should set clear, easily understood policies and let the regulator regulate. Stakeholders understood the intent of the provincial energy

objectives in the *Clean Energy Act* was to ensure provincial policy objectives were considered in Commission decision-making. However, some stakeholders believe it has actually confused the decision-making process because Government did not provide guidance on the relative importance of each objective. This has increased the scope of some Commission proceedings which led to longer decision-making processes with less definitive outcomes.

Some stakeholders expressed concern about the capacity of the Commission to take on new or expanded roles. One stakeholder also questioned the use of negotiated settlements when setting rates, because there is a tendency for BC Hydro and its ratepayers to minimize short-term rate increases by deferring impacts to the future. There was also a suggestion that the Commission could undertake additional fact-finding and provide independent, non-binding advice to ensure Government can make informed decisions.

Retail Access

The majority of stakeholders said that it would be beneficial to have some form of retail access in BC. Further, some indicated it would be worthwhile to explore retail access on a pilot basis. Stakeholders understood that any version of retail access needs to have rules in place (e.g. exit fees, commitment periods) to protect those ratepayers who cannot take advantage of the program to ensure they did not absorb additional costs due to industrial customers exiting and re-entering the BC Hydro system.

Some stakeholders opposed the concept of retail access due to risks to BC Hydro ratepayers. One stakeholder also noted that BC Hydro should capture market differences for the benefit of all ratepayers rather than letting members of one rate class capture this value.

Stakeholder input identified three potential approaches to retail access:

1. Retail access from BC based generation other than BC Hydro's;
2. Retail access within BC and market access to Mid-Columbia; or,
3. Market price indexing

The first model envisions a retail market within BC where industrial customers have the ability to acquire energy and/or capacity from new or existing IPPs. The second model encompasses the first and also provides market access outside of BC. The third model would see BC Hydro index a portion of an industrial customer's energy purchases to the Mid-C market which would eliminate the need to secure transmission.

Some stakeholders indicated the first model would provide industrial customers with competitively priced energy supply now and in the future should BC Hydro rates increase. It also would have the benefit of providing a potential market for domestic clean and renewable IPPs. Industrial customers' primary interest is accessing the lowest cost supply. Some stakeholders also indicated that a limited pilot program using BC Hydro's suspended Retail Access Program would be a low risk means to determine whether the program can function, or requires revisions.

Transmission Service Rate and Conservation

Industrial and some non-industrial stakeholders believe the stepped rate is working as it should. The price signal appears to have worked since most industrial customers on the rate have reduced consumption to just above 90% of their Customer Base Lines. Further, recent changes limiting the length of time customers can benefit from a demand side management investment should maintain the tier two price signal to conserve.

Other non-industrial stakeholders indicate the rate is flawed and has achieved most of what it can achieve due to the way the rate is designed. There is a perception that customers “game” the rate to ensure the vast majority of their energy consumption comes from Tier 1. Further, they indicate that it is difficult to quantify how much conservation actually occurs. The design of the rate (specifically revenue and bill neutrality) makes it difficult to change short of completely re-designing the rate.

There were also a small number of stakeholders concerned that the current operation of the rate would not suit their specific business type.

There was general recognition that conservation is preferable to adding new supply up to the avoided cost of incremental generation. There is a view that more cost-effective conservation can occur with industrial customers provided the incentives are structured correctly. Accordingly, industrial customers generally expressed strong support for the Industrial Power Smart program.

Some stakeholders questioned whether the 66% conservation target is realistic or effective given it is tied to load growth.

Contribution Policy (Transmission)

There was general agreement that it is appropriate to seek a contribution to pay for system upgrades triggered by a new industrial customer connecting to the BC Hydro transmission system. Rather, discussion revolved around how much of the system upgrade costs should be borne by existing ratepayers (recognizing benefits to the provincial economy and additional revenues to BC Hydro) versus the new customer (recognizing the customer receives access to embedded cost resources and triggers additional costs to existing ratepayers).

Stakeholders presented several potential options to address issues with the current transmission contribution policy. Most adopted similar methodologies as those proposed for generation contribution policy. One stakeholder indicated that there really should be no distinction between generation and transmission contribution policy because they are effectively one, integrated connection cost. The stakeholder argued that a clear policy that showed up-front costs would enable proponents to make economic decisions on energy supply.

A minority of stakeholders argued new customers should pay the full incremental cost of system upgrades when they connect to the BC Hydro system.

End Use Rates

There was general agreement that end use rates were not appropriate for industrial electricity policy, but a minority of stakeholders indicated they remain a policy option at Government's disposal. One stakeholder indicated Government should consider possible trade agreement implications should it consider using end use rates for economic development purposes.

Postage Stamp Rates

There was agreement amongst stakeholders that BC Hydro should continue to use postage stamp rates for industrial customers.

Other Comments

Definition of Environmental Policy for Purposes of the Review

One stakeholder indicated that emphasizing greenhouse gas emission reductions at the expense of other environmental and sustainability matters is too narrow and does not address the broader environmental impacts of generation and transmission development. This stakeholder suggested the task force adopt a broader view during its determinations if it plans to make recommendations that would impact environmental policy decision-making.

BC Hydro Costs

Several stakeholders mentioned the Government's 2011 financial and administrative review of BC Hydro. These stakeholders questioned the extent to which the review's 56 recommendations have been implemented. They also expressed concern with the amount of BC Hydro revenue that flows to governments through the dividend, water rentals, taxes, and grants in lieu of taxes, because they must ultimately be collected through rates.

BC Hydro Deferral Accounts

The majority of stakeholders believe that BC Hydro is not making appropriate use of deferral accounts. Customers are concerned at the rate impacts associated with retiring the deferral account balances and how quickly that will occur.

Application of Provincial Sales Tax to Industrial Electricity Consumption

Industrial stakeholders indicated that the re-introduction of the Provincial Sales Tax on industrial electricity consumption will hurt their competitiveness given most jurisdictions do not charge a similar tax. This is effectively a 7 percent bill increase paid to the Province.

Projected BC Hydro Surplus

Most stakeholders were aware of BC Hydro's projected near-term energy surplus from BC Hydro's updated Load/Resource Balance. Many stakeholders agreed that this represented a potential cost to ratepayers given weak export markets and that BC Hydro should take prudent action to reduce its energy surplus as quickly as possible. However, some stakeholders argued that it is too early to determine whether the near-term surplus is a risk in the absence of an updated BC Hydro Integrated Resource Plan given the uncertainties related to the electrification of industrial load, particularly LNG.

LNG Power Supply

Industrial and many non-industrial stakeholders have a particular interest in energy supply options for the emerging LNG industry. Industrial customers are concerned what impact(s) interconnecting such large loads would have on rates. Some non-industrial customers are interested in potential commercial opportunities related to LNG development. One stakeholder indicated the environmental assessments of projects with large new electricity loads should include a review of the environmental effects of new generation and transmission required to service them.

Flexibility of Natural Gas Generation

Some stakeholders indicated that natural gas-fired generation should be part of the province's future energy strategy given its ability to locate near load and the flexibility it provides to the overall system. This would provide options to deploy the "right" energy supply technology at the "right" time to optimize provincial energy (electricity and natural gas) use as a whole.

Cost of Future Electricity Procurement

There was no agreement on how best to mitigate cost increases associated with future electricity procurement. Industrial stakeholders focused on cost-effectiveness indicated that gas-fired generation is the best option. Some non-industrial stakeholders indicated that clean and renewable electricity is cost-competitive despite public perceptions. Some suggest it is difficult to accurately compare resource options because they depend on future natural gas prices, future carbon prices, technological advancements and the time frame used to undertake the analysis.