

# Retail Access

## Issue

Enabling BC Hydro's industrial customers to access market-priced energy when prices are low may improve their competitiveness, but it potentially exposes remaining BC Hydro ratepayers to costs of stranded assets.

## Background

Retail access is the ability for customers to secure electricity from the market via a third-party provider rather than its local utility. RA is attractive to customers when market prices for energy and capacity are lower than the cost of local utility service. Interest in retail access fluctuates with electricity market prices. Customers are typically interested when market prices are lower than local supply and not interested when market prices are higher than local supply. Retail access was an issue during the 1990s until the early 2000s in British Columbia. It was the subject of several British Columbia Utilities Commission (Commission) proceedings during that time.

BC Hydro introduced the Real Time Pricing (RTP) Program in 1996. This was subsequently approved by the Commission. The RTP enabled industrial customers to buy incremental market electricity for a trial period based on an index of Mid-C market transactions. Customers that opted to use RTP were subject to a waiting period before taking service from BC Hydro. Participation was limited as market prices rose in the late 1990s peaking in the early 2000s.

The 2002 Energy Plan included provisions for RA despite the low level of interest in it at the time. The issue was referred to the Commission in the 2003 Heritage Contract Inquiry which led to recommendations on how retail access could be implemented for industrial customers. BC Hydro's 2005 Transmission Service Rate application included a provision for a Retail Access Program (RAP) which was subsequently approved by the Commission in 2006.

BC Hydro's RAP enables Transmission Service Rate (TSR) customers to buy electricity supply from the market via a third party provider. Government believed the RAP would encourage industrial customers to acquire clean power from independent power producers (IPP) and not secure energy from the market. This did not occur because IPP energy was consistently more expensive than BC Hydro supply. Government did not consider the implications of industrial customers seeking large quantities of energy from the market at the time.

In 2011, an industrial customer sought to use RAP provisions to secure market energy. This exposed several policy issues including the potential costs to ratepayers for industrial customers leaving and returning to BC Hydro as well as load forecasting challenges. BC Hydro, with the endorsement of the Ministry of Energy, Mines and Natural Gas, subsequently applied to suspend the RAP until the policy issues could be resolved. The suspension will last

until March 23, 2014 or until a new Retail Access Tariff is put forward for Commission consideration.

## **Discussion**

The inherent difficulty in setting a direct access rate is the extreme variability of electric market rates and relative stability of cost-based rates. There is pressure from customers to switch from one to the other at the expense of those who do not, or cannot, take advantage of market rates when they are low.

TSR Tier One energy costs are approximately equal with market prices. TSR Tier Two energy costs are approximately double market prices. The most recent marginal cost of BC Hydro acquisition in the 2008 Clean Power Call was approximately triple market prices. Further, BC Hydro has started, and will continue, to reinvest in its ageing generation and transmission infrastructure. This capital spending will drive rate increases for all customers. Increased rates will drive interest in accessing low-cost market electricity for as long as it is economic to do so. Encouraging RA would be a means for Government to support existing electricity-intensive industry.

However, enabling industrial customers to acquire large volumes of electricity from the market introduces risk to other ratepayers. BC Hydro acquires generation and builds transmission to meet its customers' requirements. Losing an industrial customer would strand assets that would be borne by remaining BC Hydro ratepayers. Further, industrial customers that leave could potentially avoid paying part of BC Hydro's system upgrade costs during the time they obtain supply from the market. These costs would also be borne by a smaller rate base. Finally, a RA customer returning to BC Hydro service could potentially be a de facto "new customer" and trigger additional costs for all ratepayers presuming BC Hydro successfully reduced its generation after the customer left the first time.

In principle, retail access provides a potentially useful tool to support Government's economic development objectives. However, principles would need to be developed that balance the economic benefits enjoyed by those that can take advantage market-priced energy with the potential costs incurred by those who cannot.