

April 19, 2013

Mr. Scott Barillaro
Director, Transmission and Industrial Electricity Policy
Ministry of Energy, Mines and Natural Gas
4th Floor, 1810 Blanshard Street
Victoria, BC, V8T 4J1

via email: Scott.barillaro@gov.bc.ca

Dear Mr. Barillaro:

Re: Industrial Electricity Policy Review - Second Submission

The Canadian Association of Petroleum Producers (CAPP) appreciates the opportunity to submit a second response on the Industrial Electricity Policy Review. Attached please find CAPP's detailed response.

CAPP is committed to continued dialogue and is ready to discuss any matters on the subject with the Review Panel at its convenience.

Sincerely,



Geoff Morrison
Manager, BC Operations

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April 19, 2013 Industrial Electricity Policy Review - Second Submission

It is important to note that CAPP's comments and submissions to the Industrial Rate Task Force pertain to the upstream oil and gas industry and the Scope of the Terms of reference of the Task Force. It is understood electricity policy as it relates to LNG facilities is outside the terms of reference for the Task Force. CAPP comments and views as such, cannot and should not be generalized to apply to LNG electricity policy.

CAPP continues to support all of the points made in its April 2013 submission however it will focus its comments on the submissions of others which relate to the key issues identified in that earlier filing, specifically:

- The need to balance the economic, energy and environmental policies identified in the Terms of Reference,
- Tariff Supplement 6 (TS6) continues to provide equitable treatment between existing and new BC Hydro transmission customers, and
- Natural gas generation should not be precluded as a BC Hydro resource option.

Need to Balance the Objectives in B.C.'s Energy Policy

Similar to the submissions made by CAPP, many participants highlight the competing objectives among the Government's economic, energy and environmental policies.

In FortisBC's submission (pp.1-2) it describes this issue as follows,

"...conflicting priorities for economic development, conservation and environmental policy goals...can create confusion for regulators, and public utilities. The result is an uncertain investment environment for industrial customers, independent power producers, the regulator and other customer groups."

AMPC uses similar language to CAPP's Goal Statement (outlined in its April 2013 submission) recommending that there is an opportunity to re-focus BC Hydro on its core responsibilities.

And BC Hydro at p. 2 of its submission states that,

"Because the ToR expressly acknowledges that the pursuit of any of the three policy objectives can require trade-offs with regard to the other two, BC Hydro understands that what the Province is seeking from the Task Force is a menu of alternatives that

will inform the Province depending on which of the three objectives it might decide is paramount.”

Given the prominence of this issue among many stakeholders CAPP believes the Task Force’s report should address the need to balance these competing policy objectives in a way that allows BC Hydro to provide safe, reliable, non-discriminatory and low cost service to its existing and future customers while minimizing the impact on the environment.

Tariff Supplement 6 (TS6)

CAPP’s April 2013 submission is supportive of TS6 with the exception of the 150 MVA generation contribution thresholds which we believe is arbitrary and not based on regulatory principles.

Two issues raised by other participants relating to TS6 require further comment by CAPP; first, the issue relating to generation contribution for loads exceeding 150MVA raised by BC Hydro and second, the issue relating to the need for an economic test for the transmission reinforcement contribution under TS6.

Generation Contribution

AMPC and FortisBC generally support the generation contribution position advocated by CAPP.

At pp.8-9 of its submission AMPC agrees with CAPP that the 150 MVA thresholds should be removed from TS6. AMPC states:

“With the important exception of dedicated local generators that may displace distribution or area transmission reinforcements, the cost of expanded system generation is not normally included by utilities as part of the system expansion costs to be recovered in a workable contribution policy – with good reason.

Generation is the most communal part of system that cannot be causally “mapped” to any specific customer, and is difficult to establish on a principled basis. An existing customer who fails to conserve contributes to the need for generation in a similar manner to the new customer seeking to join the system for the first time.”

FortisBC states that new large customers should not be discriminated against, and recommends that an economic test be devised to evaluate if the proposed project provides an adequate benefit to BC Hydro revenues.

In contrast to these positions, we understand BC Hydro is of the view that a basic component of the Heritage Contract requires new large customers must pay full incremental costs of generation. Accordingly, BC Hydro recommends that this fundamental aspect of TS6 be maintained although it acknowledges that the 150 MVA thresholds could be changed - noting the arbitrary nature of the threshold could encourage gaming both in terms of the requested contract demand and phasing of projects.

CAPP does not agree with the view that a basic component of the Heritage Contract requires new large customers to pay full incremental costs of generation. The 150 MVA threshold has been in existence since 1991, and was agreed to by all key stakeholders (including BC Hydro) as part of the TS6 package. Further, we see nothing in the Heritage Contract legislation which highlights the fundamental importance of this issue over others contained in TS6.

CAPP also believes that in addition to eliminating the discrimination between current and future customers the removal of the 150 MVA thresholds would also eliminate the potential for gaming raised by BC Hydro.

If the Task Force believes there is a public policy need to consider the incremental generation cost impact to the system of new very large customers applying for service from BC Hydro, then CAPP's alternative recommendation (as outlined in its April submission) of allowing the Government to intervene in such circumstances should be considered. As BC Hydro noted in its submission "Through regulations issued under the UCA, the government can make specific determinations for specific cases."

Transmission Reinforcement Contribution

As outlined in our April 2013 submission, CAPP believes that the financial test for BC Hydro transmission reinforcement contribution in TS6 remains appropriate.

BC Hydro also appears to generally be supportive of the present test and makes the point that TS6 was designed from a "revenue-test model", and was intended to leave existing customers "relatively indifferent to the introduction of new load". The BCUC recognized this approach in its approval of TS6 in 1991.

Other participants were not supportive of the present transmission reinforcement contribution test in TS6.

AMPC recommends the development of a new and revised transmission contribution policy in the future providing a possible "Roll-in-Ratio" proposal. CAPP does not believe that such a proposal is reasonable nor would it materially alleviate the rate increase issue identified by AMPC. The basis for the Roll-in-Ratio percentages appears to be arbitrary, and such a test is much less useful than the revenue-test model that underpins the current financial test.

In the case of FortisBC, it encourages future development of an economic test to replace the current financial test. CAPP believes that the present test is an appropriate economic test.

Policy Actions and the importance of Natural Gas electricity Generation

CAPP recommended in its April 2013 submission that B.C. will be better served if the 2007 Energy Plan policy actions are treated as objectives which need to be balanced taking into account practical realities; including the 93% clean or renewable energy, and the net zero greenhouse gas emissions

targets.

Some of the issues identified in CAPP's submission in this regard were also highlighted by other participants.

For example AMPC states at p. 7 of its submissions that

".....this Task Force should recognize clearly that government policy under the Clean Energy Act has increased costs to BC Hydro customers. Examples of this include the limits on the use of natural gas and the requirements to purchase excessive amounts of firm energy from IPPs based on an ill-advised definition of self-sufficiency. Natural gas generation provides strong cost and reliability benefits to the system and must be considered as a viable and attractive generation option now and in the future. The Burrard gas generation facilities in particular are badly undervalued in system planning."

FortisBC also comments on the need for Government to clarify the balance between economic and environmental policy. It states at pp.7-8 of its submission

"In the current environment of low cost energy, the carbon tax puts BC at an economic disadvantage with other regions that do not implement any sort of carbon pricing."

Particularly troublesome is the double carbon compliance issue created by Policy Action Items 18 and 19 of the BC Energy Plan that impacts natural gas or oil generators connected to the grid. These facilities face 2 carbon compliance mechanisms, the carbon tax on fuel and the zero net greenhouse gas emissions requirement, both addressing the same issue. It should be made clear that if these facilities comply with one, they are exempt from the other. It also should be made clear that by complying with either one, the carbon issue has been addressed and that gas generation is acceptable."

CAPP generally supports the need for greater clarity.

Many jurisdictions in North America and throughout the world are switching to natural gas generation to reduce their GHG emissions. An additional benefit beyond the inherent efficiency of natural gas generation is that by their nature natural gas generation facilities can be sited near the load and thus reduce transmission losses and enhance the security of the supply. Accordingly, as CAPP recommended in its April 2013 submission, it believes the "clean or renewable resource" definition in the Clean Energy Act should be amended to include CCGT as a "prescribed" resource.