

May 15, 2020

Diane McSherry
Vice President, Projects, BC Hydro

Les MacLaren
Assistant Deputy Minister
Ministry of Energy, Mines and Petroleum Resources

Submitted via email to BCHydroReview@gov.bc.ca

Dear Ms. McSherry and Mr. MacLaren:

The BC LNG Alliance (BCLNGA) is comprised of seven of Canada's leading liquefied natural gas (LNG) proponents with projects located in Haisla Nation/Kitimat, B.C.; Delta, B.C.; and, Squamish, B.C. Members of the Alliance include ExxonMobil; FortisBC; Kitimat LNG (KLNG, Chevron and Woodside Energy); LNG Canada; Triton LNG (AltaGas and Idemitsu Canada); and, Woodfibre LNG. The Alliance's purpose is to support the efficient and responsible development of a new, globally competitive and clean LNG industry in British Columbia.

BCLNGA appreciates the efforts of the Government of B.C. for the opportunity to comment on the Phase 2 Interim Report of BC Hydro. We agree that the evolution of provincial energy policy and BC Hydro services are necessary in order to operationalize the CleanBC program, create new economic opportunities and advance reconciliation with Indigenous peoples.

Since the release of the Phase II Interim Report, there have been significant social and economic impacts as a result of the Covid-19 global pandemic. In addition, there are significant structural changes that are occurring in the global energy sector as a result of the price collapse in oil and natural gas sectors. While the impacts of these challenges are not fully realized or understood, there are several clear priorities that are shared across government, industry and communities. These include:

- collaborating to create long-term sustainable jobs to support individuals, families and communities in the recovery;
- creating a competitive climate to attract investment supporting economic recovery and long-term economic resiliency;
- enabling British Columbia to be a reliable and low-risk global supplier as supply chains look to building redundancy and certainty, and;
- ensuring that the province is able to meet its own needs for critical supply elements, including electricity.

British Columbia is home to LNG Canada, the cleanest large-scale LNG project in the world, and the largest single capital investment in Canadian history. With Woodfibre LNG’s commitment to use e-drive technology and the potential expansion of FortisBC’s Tilbury LNG, B.C. will also have the cleanest small-scale export LNG facilities in the world. Moreover, these operations located in the Lower Mainland, will demonstrate to urban populations in B.C., the role natural gas plays in supporting a low carbon energy future.

Should our province successfully attract the final investment decision of the KLNG project, the first large scale all-electric LNG facility in the world, B.C. will further earn its global climate leadership position. BC Hydro could play a critical role in British Columbia becoming a global centre of excellence for low carbon LNG.

In our earlier submission (November 4, 2019), the BCLNGA outlined the significant gap between the price of self-generated natural gas-fired electricity and hydro electricity rates, and the timely and affordable availability of transmission infrastructure that limits electrification opportunities in B.C. Since our previous submission, this gap has widened even further. We believe this challenge can be overcome through deliberate collaboration among industry, governments, Indigenous communities, local communities, BC Hydro and the B.C. Utilities Commission.

Therefore, BCLNGA offers the following recommendations for consideration in the Phase 2 Interim Report regarding competitiveness measures, grid expansion, compliance options, and opportunities to forge greater cooperation:

- **Rate Design and EITE Resource Industries:**

As a result of its past decisions to construct a clean electricity system around hydro-electricity generation, there is an opportunity to use the natural advantages of this system to attract the world’s cleanest LNG facilities to drive the economic recovery and to create resiliency. This opportunity is consistent with and complements the goals and objectives of CleanBC and the priorities in post-pandemic recovery.

LNG facilities are energy-intensive and trade exposed as described in the Phase 2 Interim Report. As partially- or fully electrified LNG facilities would consume large volumes of electricity, ensuring rates are competitive and certain over the commercial life of the project is important to both attract LNG investment and to encourage the use of B.C.’s clean electricity to power the facilities versus natural gas.

The creation of an “economic development rate” may be consistent and responsive to BCLNGA’s recommendation for the introduction of Long-term Load Attraction Agreements. In order to attract investment, an “economic development rate” would need to include provisions that guarantee rate certainty and stability over time.

BCLNGA recommends the development of an “economic development rate” similar to the proposed Long-Term Load Attraction Agreements as a critical priority for enhancing British Columbia’s competitiveness to attract large-scale investment, while protecting the needs of smaller business and industrial customers. This critical tool for BC Hydro reduces the barriers to electrification for new customers.

- **Eliminating the 150 MVA Threshold:**

BCLNGA concurs with the statement in the Phase 2 Interim Report that the 150 MVA threshold “presents a cost barrier not found in other jurisdictions and sends a signal that new large electric loads are not supported in British Columbia.” BCLNGA recommends eliminating this threshold to enhance the competitiveness of B.C.’s clean electricity for new industrial customers.

- **Time and Cost for Industrial Customers to Connect:**

BCLNGA is encouraged that the Phase 2 Interim Report provides recognition that the time and cost for industrial customers to connect to BC Hydro’s system can be a barrier to electrification. BCLNGA also recognizes the efforts between British Columbia and Federal government to identify transmission projects for co-funding that would support electrification of the natural gas sector. Federal and provincial infrastructure investment to support the development of additional transmission lines enables the LNG value chain to connect to the provincial electricity grid. Transmission infrastructure, however, needs to be combined with additional measures to make grid connection economically feasible. We encourage the Province to consider other energy grid connectivity opportunities, including investment in natural gas grid connection when this enables the most economic and optimum fuel-switching opportunity.

- **Self-Sufficiency of Electricity Supply:**

In addition to B.C.’s low cost electricity advantage, it also has the advantage of legislated self-sufficiency. Certainty of supply is an important consideration when evaluating investments that rely on electricity supply from an independent third party, such as BC Hydro. BCLNGA recommends that B.C. proceed cautiously when considering the trade-offs inherent to reducing or eliminating legislated self-sufficiency.

- **Capital Cost Allowance (CCA) treatment:**

BCLNGA recommends that the capital cost allowance regime should allow LNG proponents accelerated depreciation for any e-drive LNG plant or capital infrastructure related to electrification. In addition, BCLNGA recommends improvement to accelerated CCA treatment for all LNG capital expenditures in line with other Canadian manufacturing sectors, and in parity with other jurisdictions.

- **Designate High-Potential Electrification Regions or Corridors:**

In collaboration with industry, BC Hydro should designate High-Potential Electrification Regions or Corridors. We recommend BC Hydro be given the mandate to complete advanced planning and permitting in these regions to ensure in-service timeliness when and where more grid connectivity is needed.

- **BC Hydro and Powerex may have a role to play in an expanded B.C. and Canadian offset market:**

BCLNGA encourages the province of B.C. to ensure the LNG industry has access to international and domestic emission credits. A B.C. Offset Framework should set fungibility beyond provincial borders. There may be a role for Powerex in oversight of an expanded compliance and trading market within the province.

- **Expanded compliance options:**

BCLNGA advocates for climate policy that is effective and equitable within the context of a growing economy. Including offsets as a compliance tool could allow the B.C. LNG industry to continue to grow and engage other parts of the B.C. economy in climate solutions, such as Indigenous community fuel-switching or micro-grids. BCLNGA sees an opportunity for BC Hydro to promote micro-distributed / community energy projects through future CleanBC calls for power. This avenue could facilitate commercial and fuel switching opportunities for Indigenous communities. As an investor in the CleanBC project, the LNG operator should receive compliance credits.

- **Greenfield electrification should be eligible for offset credits and corporate compliance:**

Additionally, we encourage the Government to create greenfield electrification offsets to help offset the operating expense differential between natural gas and electricity prices. The generation of offset credits for sale in a fully functioning secondary credit market in B.C. would provide an additional revenue stream to offset the high cost of electrification and grid connection. LNG proponents and natural gas operators should also be able to use offsets for corporate compliance.

Conclusion

Thank you again for the opportunity to provide comments on the Phase 2 Interim Report. Changes in consumer demands, the potential of micro-grid technologies, market disruption, CleanBC requirements and B.C.'s commitment to reconciliation with Indigenous Nations are compelling drivers of change for BC Hydro. If the Government of B.C. is to reach its goal of developing its natural gas resources and to build its energy brand as a supplier of the world's cleanest LNG, collaboration, innovation and extensive electrification are needed.

Cooperation among the Federal and Provincial governments, Indigenous communities, local communities, the BCUC, BC Hydro and the LNG sector could facilitate B.C.'s LNG advantage. With competitive stable rates, aligned climate programs and timely investment in infrastructure, the LNG sector is well-positioned to:

- contribute tens of billions of dollars of economic stimulus to the B.C. economy;
- create tens of thousands of jobs;
- diversify B.C.'s energy export markets;
- advance Indigenous economic reconciliation; and
- support an inflow of investment in new clean energy solutions and B.C. path forward to a decarbonized economy.

The BCLNGA appreciates the transparent engagement by the Government of B.C. on the Phase 2 Interim Report. We look forward to further meaningful consultation with the Government and BC Hydro regarding the necessity and importance of rate stability, reliability, updated BC Hydro programs, and, timely planning and investment in industry-enabling infrastructure.

Sincerely,



Bryan Cox
President & CEO
BC LNG Alliance