

British Columbia Industrial Electricity Policy Review

**Written Submissions
of the
Association of Major Power Customers of BC**

April 19, 2013

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I. INTRODUCTION

This submission is intended to build upon AMPC's written submissions of March 27, 2013, not replace them.

AMPC has now reviewed the submissions of the other interested parties which were recently released by the Task Force and finds no need to repeat or revise its submissions of March 27, 2013 or to build extensively upon them.

It appears that while there is no unanimity on required changes to the regulation of BC Hydro or on how well the industrial rate works, there is a great deal of common ground. With the exception of BC Hydro, which seems to pretty much like things the way they are, there appears to be significant agreement among those most affected on what needs to be done on many issues, with two possible significant exceptions – Contribution Policy and Retail Access for industrial customers.

AMPC is arguing strongly for less government interference with BC Hydro, while at the same time suggesting that BC Hydro be directed to change direction in several important ways. AMPC recognizes the apparent inconsistency in this approach and wishes it could be avoided. However, AMPC believes that BC Hydro has become so accustomed to looking to Victoria for direction that it will continue on its current course until it receives explicit directions for change.

II. AREAS OF SIGNIFICANT AGREEMENT

In AMPC's submission, there appears to be general consensus in the following areas:

(i) The Need to Control the Rate of Increases in BC Hydro Rates

BC Hydro urgently needs to implement substantial cost control and restraint measures; otherwise, its industrial rates will soon become even more seriously and generally uncompetitive than they currently are. The submissions to the Task Force clearly show that in a number of relevant jurisdictions, industrial customers comparable to those in BC, can now purchase electricity at a lower cost through their utilities or through market options which are not available to BC Hydro's industrial customers.¹ BC Hydro's standard comparisons of residential rates in selected cities are not helpful. They serve only to disguise a real problem of declining BC Hydro competitiveness that must be addressed.

Electricity rates, which are expected to continue to increase indefinitely at rates of 2 to 5 times that of inflation, are not sustainable and will have a serious negative impact on the current businesses in BC, and in the Province's ability to attract new industry and jobs.

¹ See earlier submissions of AMPC, Catalyst and West Fraser.

BC Hydro's mandate must be brought in line with those of most privately-owned utilities, that is: “*to provide safe reliable electric service, at the lowest possible cost and with due regard to the environment.*”

Constraining the rate of growth in BC Hydro's costs requires a return to least cost planning principles and an end to governments using BC Hydro to achieve many broad social goals and holding BC Hydro to special environmental standards. As long as BC Hydro continues to have a broad “social” mandate and directions to reduce greenhouse gases (including “electrification”) and drive conservation beyond what would be expected of other participants in the economy, it will continue to avoid least cost planning and its costs will continue to spiral out of control.

The Provincial Government must also recognize the need to reduce its dependence on revenues from BC Hydro. Roughly 30 percent of BC Hydro's revenues currently go to the provincial government – a situation that cannot continue if BC Hydro is expected to be a driver of economic growth in the private sector.

(ii) The Need for Independent Oversight of BC Hydro

Oversight of BC Hydro by an independent and strong BC Utilities Commission must be restored. Under the *Clean Energy Act* and various Special Directions, the Commission's power to regulate BC Hydro has been effectively terminated. While the Commission appears to have the power to regulate BC Hydro, all of the significant decisions are now being made by the Provincial Government. This has not served BC Hydro, its ratepayers, or, in AMPC's submission, the Government well.

Returning to an environment in which BC Hydro has to demonstrate that it is proposing the most cost-effective plan to meet actual customer needs can be expected to result in a renewed utility culture that focuses on costs and customers. Requiring BC Hydro to obtain Commission approval through a transparent public process prior to undertaking substantial expenditures and commitments will not, as some suggest, increase regulatory risk or reduce shareholder earnings. Rather, it will ensure that customer needs are properly identified and met at a reasonable cost and will increase BC Hydro's accountability for its actions.

(iii) The Need for Common Environmental Standards

BC Hydro should be subject to the same environmental standards and social responsibilities that all companies and agencies in the province are subject to – nothing more, nothing less.

As a result of the *Clean Energy Act*, BC Hydro faces unique and onerous environmental standards that are not faced by other corporations in British Columbia, or, in AMPC's submission, utilities elsewhere. BC Hydro not only faces one of the highest, if not the highest carbon taxes in North America, it also faces a requirement that its generation resources be 93% clean (natural gas is not recognized as clean, as it is in most jurisdictions) and that 66% of new load requirements be met by conservation measures.

These latter two measures duplicate the goal of the carbon tax and cause substantial inefficiencies and unwarranted cost increases. As recent events in the global economy have shown, any jurisdiction that becomes uncompetitive will be hurt economically, and British Columbia is no exception. BC's significant carbon tax is sufficient to send the right signals to BC Hydro and other corporations to make appropriate economic and environmental decisions.

BC Hydro, and ultimately the Commission, must also be allowed to decide the test that should be applied to determine if conservation measures are cost-effective. Government imposed hurdles for determining what is economic DSM are too low, wasting money and in the long term, driving rates up. A focus on least cost planning would encourage efficient DSM while ending inefficient DSM.

(iv) The Industrial Stepped Rate is Working

The industrial Stepped Rate Structure is working, and while, like all rate designs it is not perfect, no better proposal has been brought forward. Contrary to some suggestions, the industrial rate class is paying its fair share of the system costs and can be expected to do so in the future. BC Hydro's most recent Fully Allocated Cost of Service Study clearly shows that it is the residential class that is not paying its share of system costs. Unfortunately, that class is not part of this Task Force's mandate. The stepped rate structure has also encouraged industrial customers to undertake significant conservation steps without having any negative impacts on other customer classes.

Returning to a flat rate may be possible, but would have to be done carefully to ensure that it does not deprive those who have made conservation investments based on existing rate structures of the benefits they were promised.

AMPC is strongly opposed to suggestions of decoupling Tier 1 and Tier 2 and changing the 90/10 split point for the two Tiers. The existing connection between Tier 1 and Tier 2 rates is necessary to ensure industrial rates remain fair. A different split point with decoupling would cause some industrial customers to experience massive and inappropriate bill increases. A different split point, for example 50/50, without decoupling, would cause substantially reduced Tier 1 rates, resulting in rates that would be, on their face, inappropriate and unfair. Worse yet, such rates could lead to US proposals for countervailing duties and quickly harm the BC economy.

(v) The Need for Innovation in Industrial Rates

BC Hydro has one large industrial rate, with a number of exceptions where a blended rate is permitted or required. More needs to be done to develop alternate choices.

While a great deal of work was done many years ago to look at new possibilities little has been done in recent years. Industrial customers know they can provide value to the BC Hydro system through well designed interruptible and time-of-use (TOU) rates, even though earlier versions of these rate designs have remained unused for years.

However, making these types of rates effective will require reassessing the value of these rates to BC Hydro and some imaginative rate design. In AMPC's submission,

BC Hydro should be immediately directed to revisit TOU rates, Interruptible Rates, and rates which would encourage the use of the current BC Hydro surpluses in British Columbia.

III. AREAS OF DIFFERENCE

In AMPC's view, the strongest differences between the parties' submissions were with regard to the need to review and revise the Contribution Policy TS#6 and the desirability of allowing industrial retail access. In both cases, AMPC submits that change is necessary.

(i) Contribution Policy

Suggesting no change or no review of TS#6 and BC Hydro's Contribution Policy is to suggest ignoring how the industrial rate works in its entirety. TS#6 with its controversial aspects that are unique to BC was implemented in 1991. AMPC believes that TS#6 can be replaced with a contribution policy that is transparent, fair, consistently applied, and finds a reasonable balance between encouraging large developments and maintaining stable rate levels.

It is now clear that when applied in the real world TS#6 can lead to substantially different contribution requirements from similar loads imposing similar costs on the BC Hydro system. For example, the cost of system reinforcements for two comparable developments proposed last year was roughly the same, the only significant difference was that in one part of the province there was some existing BC Hydro infra-structure that was too weak to support the proposed developments, while in the other there was no existing infrastructure. Notwithstanding the fundamental similarities in the situations, under TS#6 in one situation there was no requirement for a customer contribution, in the other there was a requirement for a major contribution.

TS#6 also contains a very major discontinuity in its treatment of new loads that has no basis in cost of service. Loads under 150 MVA may avoid any contribution while those over this arbitrary limit are exposed to an extraordinary contribution that can include the full incremental costs of all transmission and generation.

In AMPC's submission this is a Tariff that simply does not satisfy its stated purpose, and must be revisited. AMPC supports restructuring the contribution policy in a manner that fairly balances the interests of new, or existing expanding customers, with existing load customers in a non-discriminatory manner. Based on experience in other jurisdictions, AMPC believes that where marginal resources are chosen in a cost effective manner, e.g. including natural gas generation in the resource mix, this can be done in a manner that encourages large new customers to connect to the system without prohibitive increases in the rates of the other customers.

Contribution policy design is a complex part of overall rate design and cost allocation that requires regular review by an informed body. Accordingly, AMPC supports a direction to BC Hydro ordering it to expeditiously propose a new Contribution Policy that will treat new load in a transparent non-discriminatory manner and will balance the desirability of attracting new large load with the desirability of avoiding unreasonable

increases to existing load. BC Hydro's proposal must be subject to review by the BC Utilities Commission.

(ii) Retail Access

Until recently, BC Hydro's tariff allowed an industrial customer to displace its Tier 2 purchases with market purchases. Unfortunately, BC Hydro suspended this tariff just when customers were becoming interested in utilizing it. Some have suggested that this rate was suspended due to lack of interest by industrial customers. To be clear, this is not correct. This rate was only suspended in order to prevent customers from using it after customer interest was expressed in taking advantage of the rate.

AMPC believes that retail access is an important option., It provides customers with much-needed, competitively priced electricity and provides BC Hydro with important price and efficiency signals. At this time a customer interested in accessing the electricity market has only one choice, that is to seek to take advantage of the Open Access Transmission Tariff (OATT) for its full volumes, and a customer's right to do even that is not absolutely clear. Use of the OATT is not an attractive alternative because it requires committing 100 percent of one's load to market prices and substantial administrative complexities.

There is no justification for limiting the Retail Access rate to British Columbia generated electricity as suggested by some. Just as BC generators are free to sell their electricity in the interprovincial/international market, BC load customers should be free to buy their electricity in the interprovincial/international market. If BC generators are competitive, they should sell their electricity in the open market. If they are not, they should continue to sell it to BC Hydro under their existing contracts when they can.

AMPC supports immediately lifting the suspension of the existing Retail Access rate and allowing it to go forward on a trial basis. If there are fears that this rate might have serious impacts on other customers, an "open season" can be held to ensure that the impacts of re-opening the rate on a trial basis would not be excessive.

If a retail access rate is not made available, then BC Hydro should be directed to offer a market-based rate based on a recognized index, in this case, most likely Mid-C. This would allow customers to get the benefit of market rates and BC Hydro to sell its electricity at a price that reflects its market value.