

British Columbia Industrial Electricity Policy Review

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

May 16, 2013

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May 15, 2013**

1. Introduction and Summary

This submission is intended to build upon AMPC's written submissions of March 27, 2013 and April 19, 2013, not to replace them.

AMPC has now reviewed the second round submissions of the other interested parties, as well as the draft summary of submissions released by the Task Force on May 13, 2013 and finds no need to change positions previously put forward, but only to expand on a few.

AMPC is concerned by what it views as a "head in the sand" approach by BC Hydro, and occasionally some others, with respect to four key concerns; the competitiveness of BC Hydro's rates, the need to review BC Hydro's interconnection policy, allowing Retail Access and reduced Government involvement in the running of BC Hydro. While the details of each will be discussed later it is AMPC's submission that there are several inescapable facts that must be faced.

- BC Hydro's industrial rates are no longer competitive in some key markets. The fact that cross-subsidized residential rates in BC are lower than rates in some other cities in North America is at best an interesting diversion, but it is not relevant to a discussion of the level or competitiveness of industrial rates in British Columbia. Industrial rates are a driver of the BC economy and there is an urgent need to recognize that BC Hydro has a real competitiveness problem that must be dealt with, not understated or concealed.
- BC Hydro's contribution policy, as found in TS#6, is long overdue for a full independent review. Its inherent contradictions and shortfalls were amply demonstrated in the recent DCAT proceeding before the BCUC. BC Hydro's own evidence in this Review shows there are many possible ways to approach a contribution policy. It is nothing less than willful blindness to insist that BC picked the right one almost twenty years ago and that a serious review now would not be worthwhile
- The time has come to introduce a pilot program for Retail Access. BC Hydro has had a Retail Access program on the books for years and it is time to give effect to that program, at least on a limited basis. The objections BC Hydro raises are not new concerns related to retail access and could have been raised years ago but were not. There is no good reason that the longer-term conditions for wide open retail access cannot be sorted out while a limited pilot program is also put in place.
- There is an urgent need for Government to revisit both the extent to which it gets involved in the affairs of BC Hydro and manner in which it gets involved.

Generally the Government should only get involved in the affairs of BC Hydro in order to address truly major policy issues. Unfortunately, many of the burgeoning rates problems faced by BC Hydro today have their origins in past Government directions or special treatment of BC Hydro. When Government does feel it needs to get involved at a detailed level, for example to encourage the development of a specific and otherwise non-economic project, it should do so directly and transparently without usurping the Commission's role. In the case of a transmission project this might involve giving the project an infrastructure grant, but still allowing the Commission to review the project to ensure that with the grant the project will in fact meet all its stated goals in a cost effective manner.

The following is a discussion of some of the key topics and issues raised in the various submissions by interested parties.

2. Competitive Rates

AMPC is disappointed that the Draft Task Force Consultation Summary dated May 1, 2013 was not more definitive in addressing the loss of competitiveness of BC Hydro's industrial rates. Clear evidence was submitted by industrial stakeholders that in several important regions BC customers' competitors now have lower electricity rates than are found in BC. Unfortunately, that situation will only get worse as BC Hydro faces years of increases in its rates at several times the rate of inflation unless something dramatic is done soon. This situation, if left unchecked will have profound effects on future economic development.

3. Contribution Policy

Contribution Policy has the ability to affect many aspects of BC Hydro service. A few are discussed below.

(a) General Comments

AMPC is concerned that some parties may not have understood its suggestion with respect to the calculation of a "rolled in" amount stating a preference for "revenue based" contributions, as if they were alternative approaches. These are not mutually exclusive choices; they are separate steps in the same design process. AMPC's reference to determining an appropriate level of "roll-in" is precisely the same exercise as determining an acceptable level of "utility investment" in new or upgraded facilities caused by new customers, and is a vital first step in the design of every contribution policy.

AMPC submits that in a situation like the high growth one BC Hydro is facing today it is essential for BC Hydro to consciously estimate the cost of all facilities that are likely to be required by upcoming customer additions, and to consciously decide what portion of those costs should be "rolled in" to the existing rate base (utility investment) and what portion should be recovered from new customers generally. The determination of the appropriate amount to be invested in new facilities by the utility (the existing customers)

and the new customers should be based on a careful balancing of the impacts on both. This conscious approach is not a radical concept. It is a prudent approach to utility planning and tariff design that is not currently being done in BC, and must be undertaken.

Once a decision is made on how much each should contribute, the utility investment portion can, and frequently is, expressed as a “times revenue” test when it is applied to an individual customer. When a new customer applies for service the total of both the radial costs and system costs of connecting the new customer should be calculated and the times revenue test applied to the forecast new load. The new customer would then be responsible for any costs in excess of the times revenue total.

The Customer Contribution policy must be designed and applied transparently and consistently so that customers causing similar increments of system cost and providing similar revenues will face similar contributions and will be able to develop projects with some degree of price certainty. A balanced and effective contribution policy would not unduly discriminate against new customers by denying all “roll-in” or “utility investment” on the basis of radial (vs. “network”) extensions, or size as TS#6 currently does.

(b) Contribution Policy Connection With Cost Effective Planning

If the utility is also allowed to pursue truly cost effective planning and expansion (which in BC means at this time most increments of generation will likely be gas-fired), a balanced and effective contribution policy will not cause excessive rate increases for existing customers regardless of the magnitude of the expected growth, as incremental costs and historic costs are not too far apart. If BC Hydro continues to be required to acquire high cost intermittent resources to meet new firm load then this will not be the case and it may soon be impossible to add significant new load without politically unacceptable levels of rate increases or prohibitively high customer contributions.

(c) The Appropriateness of a 150 MVA (or any other) Break Point

AMPC maintains its previously stated position that the imposition of a 150 MVA “break point” is inappropriate. The addition of a 150 MVA customer in a particular location will impose the same incremental costs on the system as three 50 MVA customers or ten 15 MVA customers in a similar location. There is no generally accepted magic number or “break point” where any customer can be considered more expensive per unit of demand than any other. This is the fundamental principle that rates are based on, and allows tariffs to be expressed as \$/KW or KWH, avoiding individually calculated rates. The economics of DSM depends on the same linear principle in reverse (decremental).

In AMPC’s submission it is not reasonable to suggest a “break-point” based on any size in a transmission contribution policy. The effects of size on costs of service have already been accounted for by offering a different rate for transmission service customers. This is likely why no other contribution policy that rejects new customers based on a critical size was identified in the EEE review.

(d) Postage stamp rates

While there is unanimous agreement that postage stamp rates are essential to satisfy fairness and development goals, the essential connection between postage stamp rates, contribution policy and fair and reasonable rates appears to generally missed.

The public acceptance of postage stamp rates cannot be sustained unless those rates and associated policies are generally accepted as “fair and reasonable”. Rates that are “fair and reasonable” in turn depend on strong cost control and a carefully balanced contribution policy designed as an integral part of utility rate design and regularly reviewed by the regulator. Rates that are perceived by the ratepayers as too high will lead to customers trying to avoid them. Avoidance mechanisms could include trying to do away with postage stamp rates in some cases or the implementation of special subsidized or “end use” rates. Neither outcome is desirable.

In a high growth scenario an unbalanced contribution policy will cause excessive rate increases to existing customers, or excessive contribution levels to be assessed against larger customers or those requiring radial extensions. Unfortunately, TS#6 is causing elements of all of these problems to occur simultaneously.

Mining customers in northwest British Columbia already face effective rates higher than the postage stamp levels enjoyed in other parts of the province as a result of undue discrimination against pioneering customers supplied radially. LNG developers also face the prospect of higher project-chilling “off-tariff” negotiated non-postage stamp rates as a result of undue discrimination against customers larger than 150 MVA. Somewhat paradoxically, at the same time as new Mining and LNG customers are denied true postage stamp access, existing customers face higher than necessary rate increases due to the failure of TS#6 to collect any contributions for large and expensive gas developments in the DCAT area.

4. Retail Access

AMPC maintains that the time has come to introduce at least a pilot program for Retail Access. BC Hydro has had a Retail Access program on the books for years and it is time to give effect to that program, at least on a limited basis. The objections BC Hydro raises about the need for load departure and return policies are not new concerns for retail access and could have been dealt with years ago, but were not. In any event, the objections do not apply to a limited size pilot program. AMPC believes that longer term conditions for wide open retail access can be sorted out while a limited pilot program is also put in place.

5. Regulation of BC Hydro

AMPC’s position remains that the appropriate roles for Government, BC Hydro, and the Regulator are distinct and need to be re-established given the extent to which they have become blurred over time.

The role of government should normally be to set true energy policy (e.g. no nuclear generation, offer only postage stamp rates, utility mandate to support economic development, define environmental standards that universally apply). In those rare cases Government does feel it needs to get involved at a detailed level, for example to encourage the development of a specific and otherwise non-economic project, it should do so directly and transparently without usurping the Commission's role. In the case of a transmission project this might involve giving the project an infrastructure grant, but still allowing the Commission to review the project to ensure that with the grant the project will in fact meet all of its stated goals in a cost effective manner.

Some suggest that because it is a crown corporation BC Hydro is naturally overly risk averse and accordingly not capable of making the right decisions. AMPC does not believe that this is a valid conclusion. In most cases a decision made by a limited group in private will be based on poorer analysis than a publicly tested decision, and more importantly, will lead to less accountability by BC Hydro who can always blame others, not just for the initial decision, but for all the subsequent adverse developments around it. AMPC believes that when the Government makes the decision one does not get the same degree of buy-in and commitment to a project from BC Hydro and the public that one does when BC Hydro develops an idea, gets defined but limited support from Government, and becomes responsible to sell the idea to the Commission and stakeholders, and most importantly, implement it.

Similarly if the Government wants to discourage the use of carbon based generation it should price carbon emissions by everyone and allow BC Hydro, subject to Commission oversight, to make good economic decisions based on the public price signals. The Government should not get involved in setting detailed generation targets by fuel source or defining cost-effective DSM.

It has also been suggested that a government shareholder will not accept risk in exchange for its return and therefore will not agree to effective regulation or to abandon constant involvement in the detailed affairs of the utility. The purpose of regulating BC Hydro is to expose BC Hydro's plans to a critical review and the shareholder to the possibility of financial risk in order that they avoid risks through better decision making and accountability. Investor Owned Utilities avoid significant financial risk by focus on planning, accountability and cost control, i.e. they do not expend millions before seeking regulatory approval and being confident they can perform in a manner consistent with their application. Exposing BC Hydro to the same potential risk is the best way to make it accountable. In turn, this forces the shareholder to rely on the professional management of the utility/regulator and to stop interfering at a detailed level as this would create risk.

In other words, the spectre of financial risk is necessary to incent accountability, good management and renewed focus on the business of electricity supply (in contrast to being a general social agency). If the shareholder then allows the BC Hydro management the freedom to pursue cost effective solutions and rate designs that are consistent with its long term goals, all the "right things" will happen (such as economic development) with minimal real financial risk.

In summary on this point, AMPC submits that the financial risks for BC Hydro and the Province in a situation where BC Hydro is responsible to develop its plans, justify them before the BCUC, and carry them out are far less than the financial risks to BC Hydro

and the Province in a situation where BC Hydro's plans are developed by a small group behind closed doors, often with a limited focus or purpose, never tested by the BCUC or any experienced independent body, and BC Hydro has no accountability or "skin in the game".

The role of BC Hydro should be to formulate the most cost effective plan possible to meet forecast demands, build or acquire cost-effective assets to enable that plan, operate efficiently, design all tariff details that support economic development, and ensure that it fully meets the same environmental standards as anyone else in the province.

The role of the BCUC should be to transparently test with customer input, the needs, prudent expenditures, fair performance related returns, and rate and tariff designs of the utility. If the Government is concerned the Commission may not be staffed or qualified to carry out these roles in an acceptable manner the Government should take steps to ensure it is. The answer is not to bypass the Commission as the *Clean Energy Act* does, the answer is to strengthen the Commission as required.

Any "downward" descent of government into the utility or regulator's role can create endless problems that are contrary to the government's intent and create extra costs for customers. (e.g. specifying specific developments such as planning criteria, specific generation sources, specific transmission extensions, or specific meter technology). None of these excursions into the detailed management of utilities are necessary in a properly regulated model. Nor is the government resourced or experienced enough to effectively assume such specialized functions. Detailed government intervention can result in unintended consequences, requiring yet more government intervention to "correct" them. This can be an endless, expensive and inefficient process that can ultimately frustrate economic development.