

FortisBC Submissions in follow-up to the May 14, 2013 Meeting with the IEPR Task Force

As a point of introduction, we note that many of BC Hydro's objections to other parties' submissions is that the other parties appear to be asking the Task Force to draw certain conclusions or go in a certain direction, even though their claims are not substantiated by evidence and have not been tested in any public process (such as before the BCUC). Where FortisBC has made comments or suggestions about the TSR rate design or contribution policies or other matters being considered in the IEPR we are not expecting the Task Force to adopt our proposals and recommend them to government untested. Rather we would expect the Task Force to consider all parties' (including FortisBC's) submissions to get a general sense of the concerns that parties see with the existing TSR framework and where the main opportunities for beneficial change may be found. We would then expect the Task Force to make recommendations to government for further assessment and review on material matters where there is general agreement on the need for review. (Such review(s) could be conducted through BCUC rate design proceedings or an inquiry like the Heritage Contract Inquiry).

1. FortisBC's View is an Integrated Approach to Developing Policy

- Policy development should be across energy forms and recognize the interplay between electricity, natural gas and other energy forms at all levels. For example the efficient use of natural gas or thermal energy in end use applications that also can also be served by electricity will free electricity resources for higher value purposes and will be more economically efficient for BC energy consumers as a whole. Heritage and other existing electricity resources will go further in meeting new electricity load requirements if the thermal energy requirements of consumers are met with a mix of natural gas and thermal energy solutions (including ground source heat pumps and cogeneration).
 - An integrated approach will also provide opportunities for environmental benefits as well as well as overall economic efficiency in the energy sector.
- FortisBC would like to re-emphasize four issues that it believes are key ones for the IEPR to address. These are: retail access, the generation & transmission contribution policies, and gas-fired generation. These should be considered with one another so that the end result provides the most cost effective and fair solution to all stakeholders. An integrated review of these and other issues will provide a stronger basis upon which to develop policy.
- The long term solutions should be considered rather than giving too much weight to BC Hydro's short-term energy surpluses. These surpluses could disappear quite quickly if some of the northern industrial loads are confirmed.
- FortisBC's first submission to the Task Force provided our views on each of the issues identified. This submission will focus on the four key issues FortisBC believes need

immediate attention – Retail Access, Gas Generation, Generation Contribution Policy, and Transmission Contribution Policy.

2. Retail Access a Key Component of Industrial Electricity Policy

- Retail access for large industrials should be a key component of an improved Industrial Electricity policy, and considered in conjunction with supporting policies, appropriate price signals, and commercial ancillary services. This should be the backbone of the multi-energy integrated approach to develop solutions.
- In reference to the Industrial Electricity Policy Review Task Force Consultation Summary – Draft, May 1, 2013, “Retail Access” item - to be clear, FortisBC is not endorsing full and unrestricted market access for industrial customers so FortisBC aligns with approach #1. As a load serving utility itself, FortisBC fully understands the planning and resource acquisition processes needed to serve that load, the potential for stranding those assets and financial risks to other customers. Instead, FortisBC defines Retail Access here as large industrials in BC Hydro’s service territory having the ability to contract long-term electricity supply from BC-based generation other than that owned or controlled by BC Hydro.
- Retail access needs to provide the proper price signals to the customer in order to work. This could be the current two tier pricing with the appropriate weightings between tiers, or it could include generator and transmission contribution policies. We understand that today, Rate Schedule 1823 Step 2 energy is not currently at BC Hydro’s proxy for Long-Run Marginal cost, although it may be phased in over time. This creates inefficient price signals. Given the tiered pricing is revenue neutral, i.e. if the Step 2 price goes up the Tier 1 pricing will go down so that the weighted average price is BC Hydro’s embedded cost, The LRMC weighting could be increased to further encourage customers to evaluate alternative sources of new supply.
- Tying Retail Access to long-term BC-based generation contracts would solve the problem of industrials moving in and out of the BC Hydro supply with little or no notice to chase short-term market prices. That would also allow for long-term utility planning, mitigate the risk to other customers, treat IPP generation on an equal footing with self-generation, and support the BC independent generation market. It would also support provincial electricity self-sufficiency objectives.
- Long-term commercial contracts with these industrials would be needed to justify new IPPs, as they would be the basis for IPP project financing. Because of transmission congestion problems at the borders, opening up retail access to sources outside of BC would create a situation where the industrials would lean excessively on the BC Hydro system as back-up power. Retail Access with IPPs would also require BC Hydro back-up power as they would be unit-contingent, but not to the same extent.
- For Retail Access to work, BC Hydro would have to provide ancillary services at commercial rates. Some of these may already be available to OATT customers.

- A Retail Access model would put BC-based independent generation on an equal playing field as customer self-generation, allowing industrial customers to make appropriate resource acquisition decisions based on the price signals.
- BC -based generators would still pay BC Hydro's OATT tariff, contributing to the costs of operating and maintaining the BC Hydro transmission system.
- FortisBC believes that natural gas generation needs to be part of the provincial mix, not only for industrials but for BC Hydro.
- BC Hydro has an energy surplus currently. Although it is hard to evaluate the magnitude of the problem without the much-delayed LTAP, FortisBC believes that this is a short-term issue, and BC Hydro's load will grow and erase that surplus, even with Retail Access.
- FortisBC argues that Retail Access on average would reduce the future cost increases and risk to BC Hydro's other ratepayers. Industrial customers may be able to find their own long-term resource solutions at a lower cost than BC Hydro, especially as the cost of BC Hydro's bulk acquisitions climb up the resource cost curve.
- Retail Access (as defined by FortisBC) in the BC Hydro service territory should be reinstated, based on commercial long term BC-based generation contracts, but not market imports from outside the province.
- In response to the Industrial Electricity Policy Review Task Force Consultation Summary –Draft, May 1, 2013, item "Retail Access, items #2 and #3. FortisBC considers that access to Mid-Columbia or market price indexing (which is spot pricing) for the industrial customer's second tier power may have its own challenges specifically dealing with the BC Hydro marginal price of electricity, price signals for conservation and DSM, transmission congestion issues, fairness issues for other rate classes who could benefit from BC Hydro accessing the market as a whole, the potential for IPPs to be excluded from the market and BC Hydro's "No Harm" policy.

3. Flexibility with Gas Fired Generation

- A priority should be to build flexibility into the resource planning efforts. Large infrastructure projects such as Site C and major transmission projects may result in electricity ratepayers saddled with stranded costs if and when markets change.
- Appropriately-sized gas generation plants as an alternative can be located close to the load and built relatively quickly. They have lower capital costs, and their cost of service is more heavily weighed to their variable operating costs of fuel, and have the potential to avoid major transmission upgrades. These gas generators complement the existing hydro-based system and provide system flexibility.

- Distributed small-scale natural gas generation at or near load centers provides the opportunity to meet peak period demands on a cost effective basis and frees electricity supply resources to satisfy high load factor industrial demand.
- Although these gas generators have a higher GHG profile than an intermittent renewable, this is addressed through carbon noncompliance mechanisms such as the carbon tax on fuel.
- Small gas generators can provide capacity (peakers) or baseload supply, and provide firm power which can be used to integrate non-firm renewables in a cost effective manner. The benefits of this approach reflect the concerns of GHG emissions.
- Given the upward pressure on BC Hydro rates, gas generators should be considered as a potential cost-effective addition of the BC Hydro resource stack as well as an option for industrial Retail Access.

4. Generation Contribution Policy – FortisBC Proposes a New Economic Test

- The “all or nothing” nature of the >150 MVA threshold which excludes large new customers from BC Hydro embedded cost rates is arbitrary and unfair as it doesn’t recognize the overall benefits of economic development that are introduced to the provincial economy when large industrials relocate to BC.
- New large customers should not be discriminated against, but this must tie into a comprehensive policy which gives the proper price signals and incentives for self-generation or IPP supply, potentially freeing-up other BC Hydro generation resources.
- An economic test would compare the generation-related revenues from the proposed generation project with a threshold target. This threshold target is based on a predefined level over the current average cost of generation. If the proposed project revenues fall below this threshold (and an accompanying deadband, such as 10%) then the project will be rolled into existing rates. If the proposed revenues fall short of this threshold (and deadband), then a contribution would be required to fill the gap.

5. Transmission Contribution Policy– FortisBC Proposes a New Economic Test

- As stated previously, the >150 MVA threshold which forces new customers to pay for system reinforcement costs is arbitrary and unfair. The additional costs have the potential to make the new project uneconomic.
- Similar to the proposal for generation contributions above, the transmission economic test would compare the transmission-related revenues from the proposed industrial project against a threshold target (and an accompanying predefined deadband), regardless of project size. This threshold target is based on a predefined level over the current average cost of transmission. If the proposed transmission-related revenues exceed this threshold (and deadband), then the project will be rolled into existing rates. If the proposed revenues fall below the threshold and band, then a contribution would be

required to alleviate the shortfall. If there is a stranded asset risk, some form of financial backstopping such as a bond may be required to reduce this exposure.

- Proper price signals or incentives should be in place to prevent ratepayer subsidized transmission upgrades from displacing cost effective generation solutions, including self-generation and retail access opportunities.

6. Other Matters

- "Double carbon taxation issue" – The requirement for thermal generators to pay both carbon tax on fuel and offset their GHG footprint needs to be addressed immediately.