



LETTER NO. L-30-01

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VIA FACSIMILE

October 4, 2001

Mr. Robert H. Hobbs
Vice President Regulatory and Legislative Services
West Kootenay Power Ltd.
P.O. Box 130
Trail, B.C. V1R 4L4

Dear Mr. Hobbs:

Re: West Kootenay Power Ltd.
Request for Short-Term Adjustments to the Harmonization Clause

On May 29, 2001, Riverside Forest Products Limited ("Riverside") applied for an exemption from certain provisions of the Utilities Commission Act ("the Act") with respect to its incremental electricity generation. In response to a request from the Commission, West Kootenay Power Ltd. ("WKP") provided its comments on Riverside's application in a letter dated July 13, 2001. In that letter, WKP supported Riverside's application subject to Riverside agreeing to waive the harmonization clause for transmission to the British Columbia Hydro and Power Authority ("B.C. Hydro") system, as it applies to the customer charge only, under Schedules 101 and 102 of WKP's transmission access tariff. The effect of this waiver would be that Riverside would pay WKP the customer charge of \$1,242 per month even though this charge would not otherwise apply under the tariff. WKP indicated that this charge would, in its view, be appropriate due to the non-trivial administration costs associated with metering/billing and the interrelated nature of the City of Kelowna, WKP and Riverside. WKP committed to reviewing these administration charges after some experience had been gained.

In a letter dated July 24, 2001, Riverside indicated that it did not believe it should be required to waive the B.C. Hydro harmonization clause because the harmonization clause is an approved part of WKP's tariff and varying the tariff to remove the harmonization clause would be discriminatory towards Riverside. Riverside subsequently reconsidered its position and, in a letter dated August 20, 2001, agreed to waive the harmonization clause as it applies to the customer charge for a three month trial period.

The Commission agreed to request approval from the Lieutenant Governor in Council to issue an Order exempting Riverside from certain provisions of the Act. Any determination with respect to Riverside's waiver of the harmonization clause was postponed in anticipation of a further letter from WKP on this issue.

In a letter dated August 29, 2001, WKP noted that providing Independent Power Producers (“IPPs”) with access to WKP’s transmission system while collecting no fees related to “rental” of the wires or a customer charge may not be an equitable sharing of costs between customers and exporting IPPs. WKP recognized, however, that the counter flow nature of some IPPs may provide system benefits not included in the tariff rate. Until such issues can be resolved, WKP suggested that the harmonization clauses for B.C. Hydro and WKP could be modified so that the customer charge continues to apply in all circumstances, with the “wires” charge being waived under harmonization. WKP further suggested that this issue could be appropriately reviewed at the time that B.C. Hydro files its report regarding distribution IPP access as required by Order No. G-52-01.

B.C. Hydro provided its comments on WKP’s proposal in a letter dated September 21, 2001 (attached). B.C. Hydro indicated that rate harmonization is not appropriate where additional costs are caused by wheeling transactions and that it does not oppose changes to WKP’s harmonization clause if WKP demonstrates that the current tariffs do not lead to an equitable sharing of costs between customers (load) and exporting IPPs. B.C. Hydro indicated that it is not seeking changes to its own tariffs and that it does not believe that the harmonization rules of B.C. Hydro and WKP need to be symmetric. B.C. Hydro also expressed concern about deviating from the assumption of average losses based on the cost causation profile of a particular customer within a larger class.

The Commission recognizes that WKP may incur additional administration costs related to IPPs wheeling electricity to B.C. Hydro’s system. The Commission notes, however, that the extent of these costs will not be known until WKP has gained some experience in this area. The Commission also notes that IPPs may provide benefits to the system due to the counter flow nature of some IPP load, and that the full monthly customer charge may not be appropriate for IPPs if costs other than administrative costs are recovered through this charge (meter costs, for example). The Commission is not convinced that changes to the harmonization clause are warranted at this time. WKP may wish to reapply for changes to its harmonization clause if, after gaining some experience, it finds that IPPs impose significant ongoing administrative costs.

Yours truly,

Original signed by:

Robert J. Pellatt

MAG/cms
Attachment

cc: Mr. Max Collett
Bull, Housser & Tupper
Mr. Ray Aldeguer, Senior Vice President
Legal and Regulatory Affairs and General Counsel
British Columbia Hydro and Power Authority

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21 September, 2001

Mr. Robert J. Pellatt
Commission Secretary
British Columbia Utilities Commission
P.O. Box 250
600-900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Pellatt:

**RE: British Columbia Hydro and Power Authority ("BC Hydro")
West Kootenay Power Ltd. ("WKP")
Request for Short Term Adjustments to the Harmonization Clauses**

BC Hydro writes in response to questions posed in the Commission's letter of 10 September 2001.

1. **"...[t]he Commission requests that BC Hydro provide information related to the number of transactions affected by the harmonization clause since January 28, 1999."**

The harmonization clause has not been used to date.

2. **"The Commission also asks BC Hydro to comment on whether or not the experience to date provides a sufficient basis for the review indicated in Order No. G-12-99".**

Given that there has been no use of the harmonization provision, there is no evidence to demonstrate that there is a material weakness in its design. As such, BC Hydro sees no basis for undertaking the review contemplated in Commission Order No. G-12-99. Similarly, to date there has been no fundamental change in market characteristics which might warrant re-examination of the harmonization provisions.

3. **"The Commission further requests that BC Hydro comment on WKP's proposal. Specifically, the Commission requests BC Hydro's comments on the circumstances, if any, in which it is appropriate for customers to pay the customer charge of both utilities. If BC Hydro believes that there may be circumstances in which it would be appropriate for the customer to pay the customer charge to both utilities, please indicate whether BC Hydro supports the tariff changes requested by WKP or believes it would be more appropriate**

to wait until more experience is gained before implementing the tariff changes."

Both BC Hydro and WKP agreed in the process surrounding the rate harmonization proposal that "[r]ate harmonization is not appropriate where additional costs are caused by wheeling transactions". This was acknowledged by the Commission in Appendix A (Reasons for Decision) to Order No. G-12-99, at page 4.

BC Hydro's position in this regard has not changed. As such, if WKP can demonstrate to the Commission that the current tariffs do not lead to "an equitable sharing of costs between customers (load) and exporting IPPs", [WKP Letter to BCUC dated 29 August 2001] then BC Hydro has no opposition to the Commission approving a change to the relevant WKP tariffs.

However, the Commission has asked for BC Hydro's opinion on circumstances in which it might be appropriate for customers to pay the customer charge of "both utilities". This request has been made in the context of soliciting our view on WKP's "proposal", which we read to mean that "the harmonization clauses for BC Hydro and WKP...be modified so that the customer charge continues to apply in all circumstances, with the 'wires' charge being waived under harmonization."

As such, both WKP and the Commission appear to be contemplating a change not just to the WKP tariffs but to BC Hydro's tariffs, as well. BC Hydro notes that its WTS tariffs currently have no separate customer charge component to them, and BC Hydro wishes to make clear that it is not seeking the addition of such a charge, either generally or in the specific case of the harmonization clause. Moreover, as the Commission determined in its Reasons for Decision attached to Order No. G-69-01, it would not be prudent to contemplate changes to open access tariffs until the structure of any future regional transmission organization has been finalized.

Furthermore, BC Hydro believes there is no reason why changes to the harmonization rules of BC Hydro and WKP need to be symmetrical – that is, why harmonization clauses must produce commensurate reductions in rate pancaking in each direction. After all, the WTS tariffs of the two utilities are materially different from one another, so the *effect* of the harmonization provisions are already dependent on the direction of a given wheeling transaction. In addition, it was clearly understood when the harmonization clauses were introduced that these provisions would likely produce unequal treatment for BC Hydro and WKP. At the time, BC Hydro (the expected loser in cost shifts between the two utilities) accepted that "lack of neutrality as an unavoidable consequence of harmonization between the two systems" [Appendix A (Reasons for Decision) to Order No. G-12-99, page 3].

As for whether WKP's tariff change should happen immediately or following some further period of consideration, BC Hydro is troubled by the concept of waiting to change the WKP tariff until more experience is gained, if that notion is read in conjunction with WKP's comment that "the counter flow nature of some IPP load may actually provide system benefits not included in the WTS rate." [WKP Letter to BCUC dated 29 August 2001].

The issue of average versus incremental losses was exhaustively considered in BC Hydro's 1997/98 WTS hearing process and the resulting Commission Decision

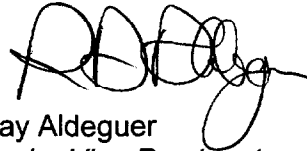
clearly found "that rate payers are best protected if BC Hydro employs average system losses" [WTS Decision, 23 April 1998, Page 47].

In summary, then:

1. BC Hydro does not oppose WKP's proposal, to the extent that any changes apply only to WKP's tariffs; and
2. BC Hydro continues to support the concept of average losses, and believes that the Commission must exercise caution in setting or amending tariffed rates based on the cost-causation profile of a particular customer within a larger class.

Finally, WKP appears to suggest that a broad review of the harmonization issue should be undertaken in conjunction with BC Hydro's report on IPP distribution access, as that report is defined in Commission Order No. G-52-01. BC Hydro believes that the issue of transmission-voltage rate harmonization and the issue of distribution-voltage IPP connection are quite separate, and should be evaluated as such.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Ray Aldeguer', with a stylized flourish at the end.

Ray Aldeguer
Senior Vice-President
Legal, Regulatory Affairs and
General Counsel