

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: <http://www.bcuc.com>



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-111-07

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

**IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473**

and

**An Application by British Columbia Hydro and Power Authority
2007 Rate Design ("2007 RDA") Phase I**

BEFORE: A.J. Pullman, Panel Chair
R.J. Milbourne, Commissioner
L.A. O'Hara, Commissioner
September 19, 2007

O R D E R

WHEREAS:

- A. British Columbia Hydro and Power Authority ("BC Hydro") filed on March 15, 2007, pursuant to the Utilities Commission Act ("the Act") and Commission Order No. G-148-06, the 2007 Rate Design Application ("Application") to update BC Hydro's rates and terms and conditions of service; and
- B. The Application addresses rate rebalancing, rate restructuring, changes to the E-Plus rates and amendments to the distribution extension policy. On May 8, 2007, the Commission established an oral public hearing process for the review of the Application by Order No. G-50-07 (Exhibit A-4); and
- C. Central Coast Power Corporation ("CCPC") is an Independent Power Producer ("IPP") in the Non-Integrated Area ("NIA") whose Energy Purchase Contract with BC Hydro was the subject of Information Requests and a motion by a Registered Intervenor, the Heiltsuk Tribal Council/Shearwater Marine Ltd. ("Heiltsuk"). On July 3, 2007, the Commission issued Commission Letter No. L-57-07 to inform all Parties that the Commission would hear the motion from Heiltsuk immediately following the Opening Statement of the Panel Chair; and
- D. The Commission Panel Hearing Issues List was issued on July 6, 2007 (Exhibit A-23). Items No. 6 and 7 on the Issues List related to "NIA – Zone II rates" and the "Bella Bella NIA" and were identified in the cover letter as subject to the Commission Panel's determination on the motions then before the Panel; and
- E. By letter dated July 6, 2007, BC Hydro submitted its compliance filings on interruptible rates to IPPs servicing Zone II customers for the period commencing July 1, 2007 and ending June 30, 2008 (Exhibit A2-3); and
- F. The public hearing commenced on July 9, 2007 in Vancouver; and

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- G. By letter dated July 11, 2007, BC Hydro filed with the Commission a proposal that the F2006 Zone II Special Contract rate of \$0.1769 per kWh effective June 1, 2006 continue for the contract year beginning June 1, 2007 on an interim (refundable) basis (Exhibit B-37); and
- H. By letters dated July 16, 2007, Heiltsuk filed two complaints with the Commission. One complaint was made pursuant to Commission Order No. G-30-02 and another complaint was made pursuant to Section 25 of the Act (respectively Exhibit C23-14 and Exhibit C23-15); and
- I. On July 17, 2007, the Commission Panel made the determination that the Application would be heard in three phases. Phase I would cover the issues in Items No. 1 to 5 of the Issues List; Phase II would cover issues in Items No. 6 and 7 of the Issues List; and Phase III would cover the BC Hydro Special Contract rates (T8: 1331-1333 and T10: 1646-1648). The Commission Panel's determinations were set out in Commission Order No. G-84-07 dated July 27, 2007 (Exhibit A-25) and Commission Order No. G-97-07 dated August 20, 2007 (Exhibit A-30); and
- J. Subject to the filing of certain outstanding information requests, the evidentiary phase of Phase I of the proceeding closed on July 19, 2007. The Panel Chair established a schedule for final argument which provided that BC Hydro file its Final Argument on August 3, 2007, Intervenor file their Arguments on August 17, 2007, and BC Hydro file its Reply Argument on August 24, 2007; and
- K. The Commission Panel has considered the Application, the evidence and submissions and has reached certain conclusions. This Order deals specifically with the proposals related to the Fully Allocated Cost of Service study ("FACOS"), the range of reasonableness for revenue-to-cost ratios and the General Service over 35 kW customer class. The reasons for decision on these issues and determinations on the other proposals in the Application will be included in the Reasons for Decision issued concurrently with the Final Order in due course; and
- L. The Commission Panel is making this Interim Order to ensure that the Rate Schedules resulting from its Decision can be in place by April 1, 2008.

NOW THEREFORE the Commission orders as follows:

1. The use of a FACOS based on embedded costs is approved as the appropriate methodology for the determination of cost causation.
2. The following assumptions and methodologies in the FACOS filed with the Application are not approved:
 - on the allocation of demand-related generation and transmission costs to rate classes;
 - on the classification of the distribution revenue requirement;
 - on the allocation of hydro plant;
 - on the functionalization and allocation of the revenue requirement related to demand-side

management;

- on the functionalization and allocation of power planning and portfolio management (“P3M”) costs; and
- on the allocation of Powerex Net Income.

3. BC Hydro is directed to revise the FACOS in its Application with the following changes:

- i. using an allocation basis of 4 CP demand to allocate demand-related generation and transmission costs to rate classes;
- ii. allocating the total distribution revenue requirement, from primary to meters and including related customer care costs and directly assigned street lighting on a 65 percent demand, 35 percent customer basis;
- iii. allocating hydro plant as 55 percent demand and 45 percent energy;
- iv. functionalizing the revenue requirement related to demand-side management 90 percent to generation and 10 percent to transmission and the portion functionalized to generation shall be allocated to the customer classes in the same proportions that the total generation revenue requirement is allocated to the customer classes;
- v. allocating P3M costs to the customer classes in the same manner that the total generation revenue requirement is allocated to the customer classes;
- vi. allocating Powerex Net Income to the customer classes in the same manner that the total generation revenue requirement is allocated to the customer classes; and
- vii. BC Hydro is directed to prepare revised Revenue-to-Cost ratios for February 2007 Rates set out in Table 1 of its Application based on the revisions referred to in subparagraphs (i) to (vi).

4. BC Hydro’s proposed range of reasonableness of 90 percent to 110 percent is denied. BC Hydro is directed to file Rate Schedules for all classes to be effective April 1, 2008 which will reflect the first phase of a three-year equal percentage phase-in to achieve the Revenue-to-Cost ratios of 1.0 based on the revised FACOS.
5. BC Hydro’s proposal to restructure its >35 kW General Service rate class is denied.
6. BC Hydro is directed to file the revised documents referred to in Paragraphs 3 and 4 with the Commission within 60 days of this Order.

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DATED at the City of Vancouver, in the Province of British Columbia, this 19th day of September 2007.

BY ORDER

Original signed by:

A.J. Pullman
Panel Chair