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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-97-08

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**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 ("BC Hydro")
For Orders
Varying the Pricing of Rate Schedules 1823, 1825, 1880 and 1890**

BEFORE: R.J. Milbourne, Commissioner
A.A. Rhodes, Commissioner June 17, 2008

O R D E R

WHEREAS:

- A. On February 22, 2008, BC Hydro applied for interim and final orders regarding the pricing of certain rate schedules applicable to its transmission service customers ("TSR Re-pricing Application"), to reflect the cost of new supply as indicated by the results of its F2006 Call for Tender process; and
- B. The rate schedules ("RS") that are the subject of the TSR Re-pricing Application are RS 1823 (Stepped Rate); RS 1825 (Time of Use or "TOU" Rate); RS 1880 (Standby and Maintenance Supply Rate); and RS 1890 (Energy Imbalance Rate); and
- C. Each of the rate schedules that is the subject of the TSR Re-pricing Application has rates that are either set on the basis that they ought to reflect BC Hydro's cost of new supply (Tier 2 Rates), or are calculated residually in accordance with the pricing mechanism of the respective rate schedule (Tier 1 Rates); and
- D. On February 20, 2008, BC Hydro filed its F2009/F2010 Revenue Requirements Application ("F09/F10 RRA"), seeking interim rate relief as described therein. Also on February 20, 2008, BC Hydro applied to the Commission for reconsideration of certain elements of its October 26, 2007 Decision regarding BC Hydro's Rate Design Application ("Rate Rebalancing Reconsideration Application"); and
- E. On February 22, 2008, the Commission issued Letter No. L-5-08 establishing, among other things, the regulatory timetable for parties to address, by written submission, BC Hydro's request to implement, as interim rates, the rates described in the TSR Re-pricing Application and the F09/F10 RRA effective April 1, 2008; and

- F. By Order No. G-21-08 dated February 25, 2008, the Commission established the Regulatory Timetable for the F09/F10 RRA which included a Workshop on the F09/F10 RRA for March 6, 2008 and also a Procedural Conference for April 28, 2008, to hear submissions on the regulatory process for the review of the F09/F10 RRA, the TSR Re-pricing Application, and the anticipated BC Hydro Residential Inclining Block Rate Application (the “RIB Rate Application”); and
- G. Order No. G-28-08 dated February 28, 2008, was issued under the style of the F09/F10 RRA, the TSR Re-pricing Application and the RIB Rate Application. Order No. G-28-08 related to the date of the Procedural Conference referred to in Order No. G-21-08, and also provided some details of the matters to be addressed at the Procedural Conference and further ordered BC Hydro to publish notice of the three applications and the Procedural Conference; and
- H. By Order No. G-29-08 dated February 29, 2008, the Commission established the Regulatory Timetable for the TSR Re-pricing Application, which included a Workshop on the TSR Re-pricing Application for March 13, 2008 and a round of Information Requests from the Commission and Intervenor and Responses from BC Hydro; and
- I. On March 10, 2008, the Commission received a submission from the Joint Industry Electricity Steering Committee (“JIESC”) supporting the Tier 2 rate change but opposing interim approval of BC Hydro’s proposed Tier 1 rate, and on March 11, 2008 received BC Hydro’s Reply Submission; and
- J. By Order No. G-41-08 dated March 14, 2008, the Commission approved the interim relief sought in the TSR Re-pricing Application and the establishment of a regulatory account to record the variance in incremental revenue that arises due to the difference between the customer’s actual consumption and its Customer Baseline Load amount; and
- K. A Procedural Conference was held on April 28, 2008; and
- L. By Order No. G-77-08 dated April 30, 2008, the Commission directed that the TSR Re-pricing Application be reviewed by a Written Public Hearing process, and that the revenue implications of the TSR Re-pricing be included in the Evidentiary Update of the F09/F10 RRA; and
- M. The Commission received Intervenor Arguments from the JIESC, the British Columbia Old Age Pensioners Organization et. al. (“BCOAPO”) and the B.C. Sustainable Energy Association and the Sierra Club of Canada (British Columbia Chapter) (“BCSEA”), and Reply Argument from BC Hydro; and
- N. The Commission Panel has reviewed the TSR Re-pricing Application, the Information Requests and Responses and the Intervenor Arguments and BC Hydro Reply Argument, and concludes, for the reasons in the attached Reasons for Decision, that the Tier 2 Price applied-for by BC Hydro should be approved.

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NOW THEREFORE the Commission orders as follows:

1. The Tier 2 Rates shall be set on the basis of a cost of new supply of 7.36 cents/kWh, as applied-for, on a permanent and final basis, effective April 1, 2008.
2. The final Tier 1 Rates shall be set in accordance with the final Commission Decision with respect to BC Hydro's F09/F10 RRA, effective April 1, 2008.
3. BC Hydro shall file new Rates Schedules 1823, 1825, 1880 and 1890 reflecting paragraphs 1 and 2 above within thirty days of the issuance of a final Commission Order with respect to the F09/F10 RRA.
4. BC Hydro is to file its second Transmission Service Rate Annual Report no later than November 1, 2008 and to include with its filing of the second Annual Report a proposal for terms of reference, a process for stakeholder involvement, and a timeline that will enable the Commission to file its report to Government by the end of 2009.

DATED at the City of Vancouver, in the Province of British Columbia, this 19th day of June 2008.

BY ORDER

Original signed by:

R.J. Milbourne
Commissioner

Attachment

British Columbia Hydro and Power Authority
Transmission Service Re-Pricing Application

REASONS FOR DECISION

1.0 APPLICATION

On February 22, 2008 British Columbia Hydro and Power Authority (“BC Hydro”) applied for interim and final orders regarding the pricing of certain rate schedules (“RS”) applicable to its transmission service customers (“TSR Re-pricing Application”) to reflect the cost of new supply as indicated by the results of its F2006 Call for Tender process. The rate schedules that are the subject of the TSR Re-pricing Application are RS 1823 (Stepped Rate), RS 1825 (Time of Use or “TOU” Rate), RS 1880 (Standby and Maintenance Supply Rate), and RS 1890 (Energy Imbalance Rate). Each of the rate schedules that is the subject of the TSR Re-pricing Application has rates that are either set on the basis that they ought to reflect BC Hydro’s cost of new supply (Tier 2 Rates), or are calculated residually in accordance with the pricing mechanism of the respective rate schedule (Tier 1 Rates). BC Hydro also requests the establishment of a regulatory account to address the expected revenue implications arising from the Transmission Service Rate Re-pricing.

2.0 BACKGROUND AND REGULATORY PROCESS

On March 14, 2008, the Commission issued Order No. G-41-08 granting BC Hydro’s request that the Tier 2 Rates be set on the basis of a cost of new supply of 7.36 cents/kWh, as applied-for, on an interim and refundable basis, effective April 1, 2008. The Commission also directed that the Tier 1 Rates be set in accordance with Commission Order No. G-34-08 regarding the Rate Rebalancing Reconsideration Application and Order No. G-40-08 granting interim, refundable relief with respect to the F2009/F2010 Revenue Requirements Application (“F09/F10 RRA”). Order No. G-41-08 and the attached Reasons for Decision summarize the regulatory process to that time, as does the Order to which these Reasons are attached, and so the regulatory process up to that point need not be described again in these Reasons.

Following the Procedural Conference held on April 28, 2008, the Commission issued Order No. G-77-08 dated April 30, 2008, directing that the TSR Re-pricing Application be reviewed by a Written Public Hearing process, and that the revenue implications of the TSR Re-pricing be included in the Evidentiary Update of the F09/F10 RRA. The Regulatory Timetable established by Order No. G-77-08 directed that Intervenor Arguments be filed by Thursday, May 22, 2008 and BC Hydro Reply Argument be filed by Friday, June 6, 2008.

The Commission received Intervenor Arguments from the Joint Industry Electricity Steering Committee (“JIESC”), the British Columbia Old Age Pensioners Organization et al. (“BCOAPO”) and the B.C. Sustainable Energy Association and the Sierra Club of Canada (British Columbia Chapter) (“BCSEA”), and Reply Argument from BC Hydro. The JIESC submits that it understands that the revenue implications of the TSR Re-pricing are to be included in the evidentiary update of the F09/F10 RRA and will be dealt with as part of the F09/F10 RRA proceeding. Accordingly, the JIESC limits its submissions to the Tier 2 rate and accepts that 7.360 cents/kWh is an appropriate level for Tier 2, “...assuming of course that the appropriate related adjustments are made to Tier 1 as part of the RRA proceeding”.

BCSEA submits that the timing of the re-pricing of the Tier 2 rate is appropriate and the revised rate is in accordance with the methodology established by the Negotiated Settlement Agreement (“Settlement Agreement”) approved by Order No. G-79-05. BCSEA also comments on the TSR Annual Reports required under the Settlement Agreement and expresses a concern about the rigour of the TSR reporting, presumably alluding to the expectation expressed in the Settlement Agreement that Commission staff will work with interested parties to formulate terms of reference to ensure that a final report will provide a comprehensive review of the operation and results of the new rates. BCSEA requests that the timing of the Commission staff’s work with interested parties be firmed up. BCSEA suggests that perhaps the work should begin after the conclusion of the Long-Term Acquisition Plan proceeding.

BCOAPO opposes the TSR Re-pricing Application because the stepped rate is not designed to be revenue neutral for the Transmission Service Rate class based on its forecast sales, but rather revenue neutral for the individual customers, assuming that they consume their entire Customer Baseline Load (“CBL”). Because total forecast use is less than the total CBLs for the class, there is an inevitable under recovery from this rate class of customers that results in rate shifting to other customers (BCOAPO Submission, p. 2). While BCOAPO recognizes that the revenue shortfall is an issue that will be dealt with in the current BC Hydro F09/F10 RRA proceeding, BCOAPO submits that it remains a relevant consideration given the increase in the shortfall that the proposed adjustment would make. Because of its concerns about inter-class rate shifting, BCOAPO requests that the Commission Panel decline to approve the current Application, leaving the current prices intact, and asks the Commission to consider ordering BC Hydro to file another application in a year’s time that addresses the issue of cost-shifting.

BC Hydro, in its Reply Argument, submits that the fact that the rate is not revenue neutral on a forecast sales basis resulting in cost shifts to other rate classes is not an adequate basis for rejecting the Application. In BC Hydro’s submission this revenue effect is “...a certain consequence of the rate design that the BCUC is obliged to ensure pursuant to paragraph 3 of Heritage Special Direction No. HC2 (“HC2”)...” and that to reject the

Application on that basis would be to inappropriately avoid the effect of HC2. BC Hydro further notes that it will be filing annual reports on the performance of Rate Schedule 1823, and that "...before the end of calendar 2009 the BCUC will itself be reporting to Government regarding the efficacy, among other things of the TSR".

3.0 COMMISSION DETERMINATION

As noted in the Reasons for Decision attached to Order No. G-79-05, the Tier 1 rate is derived from the Tier 2 rate and the Tier 1/Tier 2 split to achieve, to the extent reasonably possible, revenue neutrality. In its March 13, 2008 Workshop Material (Exhibit B-3) BC Hydro notes that RS 1823 is designed to be revenue neutral when customer load precisely matches the customer CBL. BC Hydro notes in the current Application (Exhibit B-1, p. 5) that the forecast revenue shortfalls arise solely from the proposed change in RS 1823 pricing and the fact that total RS 1823 aggregate consumption forecasts are less than aggregate CBLs. The original Transmission Service Rates were approved by Order No. G-79-05 which approved the Negotiated Settlement Agreement on BC Hydro's 2005 Transmission Service Rate Application ("the Settlement Agreement"). The Settlement Agreement established a methodology for re-pricing the Tier 2 rate, stating that Participants generally agree setting the Tier 2 price based on the weighted average price of energy from the last province-wide Call for Tenders represents the long-term opportunity cost of new supply (as set out in the BCUC recommendations). The BCUC recommendations referred to are recommendations #8 to #15 of the Commission's October 2003 Heritage Contract Inquiry Report and Recommendations. HC2 requires that the Commission set rates for transmission service customers consistent with those recommendations.

BCOAPO was a signatory to the Settlement Agreement but notes that it considered that the Settlement Agreement addressed its concern that the approval of industrial stepped rates not result in industrial ratepayers being subsidized by other ratepayer classes. Section 10 of the Settlement Agreement states that the Commission would file an evaluation of the new rate schedules by the end of 2009, including a review of how well the new rates meet the objective of avoiding cost-shifting among customer classes.

The Commission Panel has reviewed the evidence and the submissions of all parties, and concludes that the re-pricing of the TSR Tier 2 rate is consistent with HC2, and with the intent of the Settlement Agreement. The Commission notes that parties did not dispute the methodology of the Tier 2 re-pricing and finds that the Tier 2 re-pricing should be approved.

The Commission Panel acknowledges the concern of BCOAPO about inter-class revenue shifting, but notes that the revenue implications are to be addressed first in the BC Hydro F09/F10 RRA proceeding, and second in the evaluation of the Transmission Service Rates and the report to be filed by the Commission with Government by the end of 2009.

Consequently the Commission approves the Tier 2 Rate as applied-for by BC Hydro. The calculation of the final Tier 1 rate must be completed after the Decision on the BC Hydro F09/F10 RRA is complete and may be submitted to the Commission as a compliance filing.

Finally, recommendation #9 of the Commission's October 2003 Report and Recommendations resulting from the Heritage Contract Inquiry states that "...a report be submitted to the Government of a three year review of the impacts of the stepped rates, including customers' demand response and the percentage of customers' load served by third party suppliers". The Settlement Agreement states in Section 10 that, pursuant to HC2 and BCUC recommendation #9, the parties expect that the Commission will provide a comprehensive evaluation to Government regarding the new rate schedules. The Settlement Agreement also states that Commission staff will work with interested parties to formulate terms of reference for the evaluation of the new rate structures to ensure that the evaluation will provide a comprehensive review of the operation and results of the new rates, and that the evaluation will be filed by the end of 2009.

The Commission notes that BC Hydro's first Annual Report was filed on February 25, 2008, almost a year after the March 31, 2007 end of the first Annual Review period, and that if all three Annual Reports are so delayed the third report would not be filed until two months after the deadline in the Settlement Agreement for the Commission's filing of an evaluation report with Government. **Therefore, the Commission directs BC Hydro to file its second Annual Report no later than November 1, 2008 and to include with its filing of the second Annual Report a proposal for terms of reference, a process for stakeholder involvement, and a timeline that will enable the Commission to file its report to Government by the end of 2009.**