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February 19, 2010

Ms. Erica M. Hamilton
Commission Secretary
British Columbia Utilities Commission
Sixth Floor – 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

**RE: Project No. 3698586
British Columbia Utilities Commission (BCUC)
British Columbia Hydro and Power Authority (BC Hydro)
Southern St'at'imc Communities Electrification Project Application**

In accordance with BCUC Order No. G-163-09 (Exhibit A-1) BC Hydro files its Reply Submission for the above noted application.

For further information, please contact Lyle McClelland at 604-623-4306.

Yours sincerely,



Joanna Sofield
Chief Regulatory Officer

Enclosure (1)

- c. BCUC Project No. 3698586 Registered Intervenor Distribution List.
Band Councils of the Skatin, Xa'xtsa and Samahquam First Nations
Lower St'at'imc Tribal Council
Indian and Northern Affairs Canada

**IN THE MATTER OF THE *UTILITIES COMMISSION ACT*
R.S.B.C 1996, CHAPTER 473**

and

**British Columbia Hydro and Power Authority
Southern St'at'imc Communities Electrification Project
Application**

**Counsel's Reply Argument
on behalf of British Columbia Hydro and Power Authority**

February 19, 2010

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1 BC Hydro is filing its reply submission in respect of the Southern St’at’imc Communities
2 Electrification Project (**Project**) Application, Exhibit B-1 (**Application**). This reply is in
3 addition to BC Hydro's Final Submission dated February 5, 2010.

4 Three intervenors submitted final submissions:

- 5 1. B.C. Sustainable Energy Association and Sierra Club British Columbia (BCSEA);
- 6 2. BC Old Age Pensioners Organization et al. (BCOAPO); and
- 7 3. Joint Industry Electricity Steering Committee (JIESC).

8 BCSEA and BCOAPO both support the Project and the request that customers in the
9 Southern St’at’imc Communities pay Rate Zone 1 rates. JIESC takes no position on the
10 substance of the Application.

11 **1. Avoided Cost of Diesel**

12 The only concern raised with respect to the Project itself, as opposed to regulatory
13 process or RCE program costs, is the suggestion by BCOAPO that the avoided costs
14 associated with diesel service are likely on the “high side” because of an initial 2 per cent
15 increasing to 3 per cent growth rate for individual residential accounts. BCOAPO also
16 believes the calculations do not take into account cost-effective DSM or “aggressive
17 DSM”.

18 The key driver behind the increase in residential consumption is the growth in the
19 number of houses and population growth, not growth in consumption per account.
20 BC Hydro has assumed a 3 per cent per year growth in housing until F2027 and
21 population growth of 2.1 per cent in some communities and both 2.1 per cent and
22 7.8 per cent in other communities. These assumptions are not affected by the
23 effectiveness of DSM initiatives.

1 The avoided cost of diesel in the Application does not expressly take into account the
2 impact of DSM. However, as noted in the Toad River Electrification Project application,
3 BC Hydro does not have much experience in implementing DSM initiatives in small
4 remote communities so BC Hydro does not know the probable impact of DSM in remote
5 communities, if any. In its first annual report on the RCE program to be filed with the
6 BCUC in late 2010, BC Hydro will provide information on DSM up-take in Toad River.
7 This information will inform future DSM programs and electricity consumption estimates
8 for remote communities.

9 There is no evidence on the record in this proceeding that contradicts the
10 reasonableness of BC Hydro's estimate of the avoided cost of diesel. The BCOAPO
11 suggestion that the calculation is "likely" too high is, in BC Hydro's submission,
12 speculative.

13 **2. CPCN Application**

14 Although not directly relevant to the Project or its costs, BC Hydro notes that both
15 BCOAPO and BCSEA agree that the Project is an "extension" for the purpose of section
16 45(2) of the *Utilities Commission Act*. However, BCOAPO submits that BC Hydro should
17 have voluntarily filed a CPCN Application.

18 BC Hydro did not have to file an application of any kind under the *Utilities Commission*
19 *Act*. Nevertheless, BC Hydro elected to file under section 44.2 because the Southern
20 St'at'imc Communities are the first First Nations communities to be served by BC Hydro
21 under the RCE program.

22 This issue is unlikely to be important in the context of the RCE program because
23 BC Hydro will require CPCNs for almost all RCE communities since they will be non-

1 integrated systems and therefore will not be “extensions” to the existing BC Hydro
2 system.

3 **3. RCE Total Program Costs**

4 As in the Toad River Electrification Project application, JIESC raised concerns about
5 total Program costs. In reply, BC Hydro notes the following.

6 Southern St’at’imc Communities are actually four communities. For the purpose of the
7 RCE program cost estimates in the Toad River Electrification Project application,
8 BC Hydro assumed 34 communities. Therefore, the Southern St’at’imc Communities and
9 Toad River together represent five (15 per cent) of the thirty-four communities used to
10 estimate the \$95 million to \$130 million program costs in the RCE Program Plan.

11 BC Hydro also notes that 22 of the 34 communities are First Nation communities which
12 will be funded, in part, by INAC.

13 BC Hydro acknowledges JIESC’s concerns about the cost of serving customers in
14 remote communities. To reduce the total cost impact, BC Hydro is considering initiatives
15 to reduce the up-front capital costs for remote communities; is reviewing and
16 implementing ways of reducing diesel fuel consumption, including DSM and cost-
17 effective alternative energy, since diesel fuel represent the single largest cost on a
18 present value basis of serving remote communities; and is managing RCE overhead
19 costs to ensure they are reasonable and prudent. BC Hydro will report on these areas in
20 annual RCE Reports.

21 The key issue in each remote community will be whether or not service is being provided
22 in a cost-effective manner consistent with the government’s energy objectives and the
23 2007 Energy Plan. If service in each community is provided in a cost-effective manner,

1 then the RCE program, as a whole, should be cost-effective since the cost of providing
2 electricity service under the RCE program is, in for the most part, the aggregated cost of
3 providing electricity service in each of the remote communities.

4 **4. Regulatory Process**

5 BC Hydro has drafted a discussion paper and is engaging with interested intervenors
6 and two First Nations participating in the RCE program about ways of streamlining the
7 RCE regulatory process. BC Hydro does not intend to respond in detail to the comments
8 by BCOAPO and JIESC on regulatory process issues related to the RCE program, since
9 they are not directly relevant to the Application. However, BC Hydro does wish to make
10 two comments in reply.

11 First, BC Hydro will submit RCE Annual Reports, as directed by the BCUC in the Toad
12 River Electrification Project decision. BC Hydro is of the view that this annual reporting
13 may resolve many of the cumulative “program” concerns raised by JIESC and others, or
14 at least provide information relevant to those concerns.

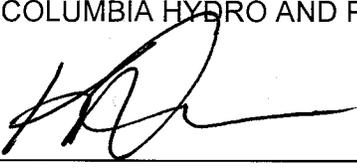
15 Second, it is not entirely clear that the BCUC can issue a single CPCN for the RCE
16 program under section 45 of the *Utilities Commission Act*, as suggested by JIESC. In
17 any event, assuming the BCUC can issue one CPCN for the program, BC Hydro notes
18 (as it did in the Toad River Electrification Project proceedings) that not all communities
19 that are eligible to participate in the RCE program have been fully engaged yet and, to
20 the extent they have been engaged, the quality of the information about the number of
21 customers, electricity use, DSM and alternate energy opportunities, and the cost of
22 service is not well developed for many communities. The RCE program cost estimates
23 submitted with the Toad River Electrification Project application represent the best
24 program estimates to date, subject to update from time to time as more communities are

1 engaged and become BC Hydro service areas. BC Hydro does not believe it will have
2 sufficient information about specific communities for the purpose of regulatory
3 applications until it has properly engaged the communities and developed a community
4 electricity plan and business case for each particular community. The RCE Program
5 Plan was reviewed as part of the Toad River Electrification Project application. BC Hydro
6 does not believe that a single generic CPCN application for all remote communities
7 provides any benefits in terms of understanding the cost of the RCE program and the
8 cumulative cost of providing electricity service in remote communities. The only material
9 benefit is the reduction in regulatory cost and effort and BC Hydro believes there are
10 other ways to address those issues, as will be discussed in the above-noted discussion
11 paper.

ALL OF WHICH IS RESPECTFULLY SUBMITTED
this 19th day of February, 2010

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY

Per: _____


Ken Duke
Solicitor & Counsel