

BRITISH COLUMBIA UTILITIES COMMISSION

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

AND

BRITISH COLUMBIA TRANSMISSION CORPORATION
PROJECT NO. 3698350
OPEN ACCESS TRANSMISSION TARIFF
APPLICATION

EVIDENCE OF DR. ZAK EL RAMLY,
PRESIDENT OF ZE POWERGROUP

December 17, 2004

This evidence is presented on behalf of CBT Energy (CBTE).

I. INTRODUCTION

A. Overview of CBTE

CBTE is a wholly owned subsidiary of Columbia Basin Trust (CBT) created by the *Columbia Basin Trust Act* in 1995 to benefit the region affected by the Columbia River Treaty. CBT, reflecting the interests of the people in the region, is an equal partner in power projects¹ with Columbia Power Corporation, the Province's representative. Fifty percent of the net profits from these projects go to CBT for the delivery of social, economic and environmental benefits to the people of the Basin.

CBTE develops and manages the power related projects to create long-term income that supports the delivery of benefits by CBT. CBTE considers this application to be very important as Basin residents recently expressed strong opposition at community meetings to the possible sale of CBTE's interest in hydroelectric projects in the Basin. Accordingly, given CBTE's objectives and its understanding of the interests of the residents of the Columbia Basin, CBTE has a unique perspective on key issues facing the BC electricity industry including power project related matters such as transmission.

¹ The projects are as follows:

- Arrow Lakes Generating Station (ALGS), a hydroelectric project generating 185 MW (2 units), 772 GWh. The output from ALGS is sold to BC Hydro for 12 years, (2003- 2014).
- Brilliant Dam purchased from Cominco in 1996. Upgrades to the Brilliant Dam have increased capacity to a total output of 145 MW, the output of the project is sold to FortisBC for 60 years, ending in 2056.
- Brilliant Expansion Project. The construction of the 120 MW Brilliant Expansion Project began in the spring of 2003 and is expected to be in-service in 2006.
- Waneta Expansion Project is a proposal to install an additional estimated up to 380 MW power generation facility at the existing Waneta Dam, owned by Teck Cominco. Construction on the Waneta Expansion Project is scheduled to begin in 2007 and the Project is expected to be in commercial operation by 2011.

B. *Involvement in BCTC Consultation Process*

CBTE supports the approach taken by BCTC in consulting with major stakeholders prior to filing this application. It was constructive and led to significant discussion and debate on key issues of importance to the future of transmission in the Province. ZE PowerGroup has actively taken part in the BCTC consultation process which occurred prior to BCTC's application being filed. ZE PowerGroup was able to make various suggestions and recommendations which were considered by BCTC.

II. **CBTE'S POSITION ON BCTC'S APPLICATION**

A. *Modification of WTS Necessary to Accommodate the Evolution in the Electricity Market*

Even though there have been significant changes in the electricity market since 1997, the WTS Tariff currently in place is substantially the same as the rate that was introduced at that time. BCTC's proposal recognizes the need for change as did the BC Government when it introduced the Energy Plan. Furthermore, although significant modifications to the WTS are necessary to accommodate the evolution of the electricity markets, the BCTC proposal also appropriately recognizes the need for the OATT to meet FERC's reciprocity requirements.

As part of the Energy Plan the Government mandated the creation of BCTC to ensure open and non-discriminatory access to the BC transmission system. In the light of the objectives set by the Government and the recent separation of BC Hydro and BCTC, the proposed OATT offers the potential to promote the development of the energy market, including independent power production (IPPs).

The use of a comprehensive oral public hearing process combined with the consultative approach taken by BCTC provides an excellent chance for all stakeholders to express their views thus offering all market participants the opportunity to have significant input to ensure that the objective of non-discriminatory transmission access to energy markets is appropriately met.

B. CBTE is Supportive of BCTC Application

CBTE is very supportive of the approach taken by BCTC in this application. CBTE believes that many of the changes proposed by BCTC are innovative and go beyond the minimum industry standards as generally defined by FERC's Orders 888 and 889. In general, BCTC's proposal is a significant improvement over the current WTS and will help to rectify some of the transmission impediments faced by BC market participants.

Although CBTE is generally supportive of BCTC's proposal, it believes that BCTC's proposal does not go far enough in certain key areas. Accordingly in order to achieve the Province's and BCTC's stated objectives, in CBTE's view enhancement to BCTC's proposal in those areas is necessary. CBTE will provide more detailed comments in the following areas:

- Long term rate design issues relating to postage stamp rates, deferral credits and "shaped" products;
- Short term rate design;
- Long term planning, Open Season and investment policy; and
- BC Clean power transmission rates.

III. COMMENTS ON, AND RECOMMENDATIONS FOR ENHANCEMENT TO, BCTC PROPOSAL

A. Long Term Rate Design Issues

(1) Postage Stamp Rate and Deferral Credits

In general, CBTE is supportive of BCTC's proposal in relation to this issue including BCTC's decision to use postage stamp rates. Conversion of the PTP rate that varies by location into a simple standard cost-based postage stamp design is acceptable. The existing WTS design was put in place for efficiency reasons, however, the small differences in charges, between various regions, has not made any known contribution to citing of any projects since its introduction in 1997. Also, the existing design introduces complexity and variance from industry practice, again, without any tangible returns.

CBTE is also supportive of the deferral credits concept as a substitute mechanism for locational pricing.

(2) Shaped Products

The introduction of a firm shaped product for LTF PTP services not available on a block basis to satisfy a customer's request is a novel idea that could potentially increase system utilization. Unfortunately, as proposed by BCTC, CBTE believes that the product is too "supplier" focused rather than "customer" focused.

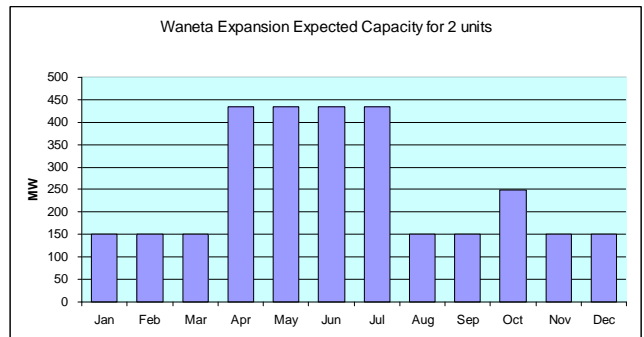
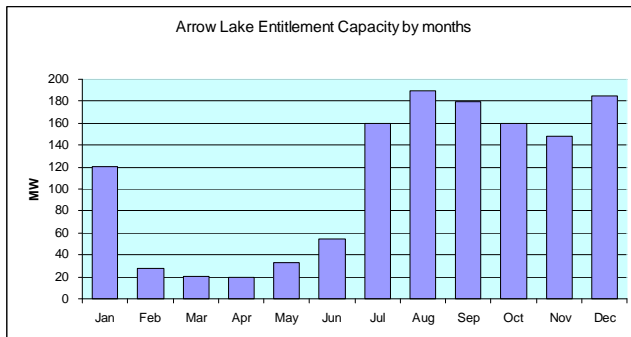
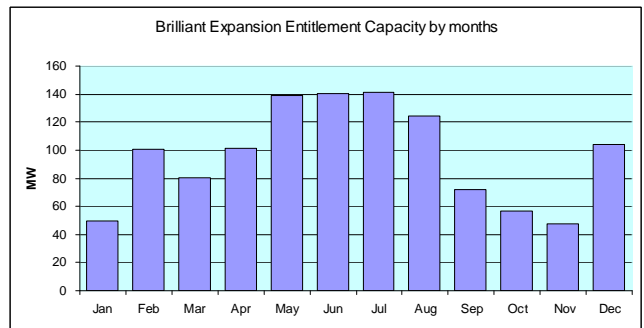
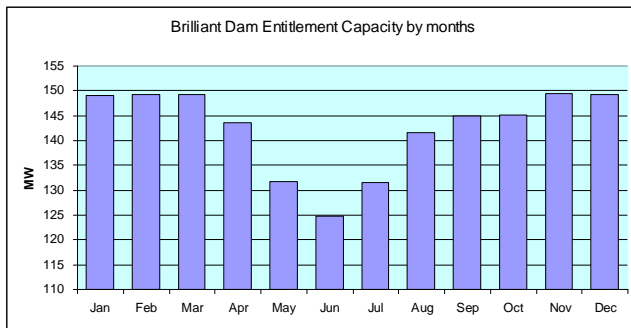
Experience has demonstrated that it is the LT PTP transmission availability that can make the difference for new IPPs when assessing the electricity markets. Without viable LT transmission access certain core objectives of the Energy Plan will not be met. Therefore from CBTE's perspective, as an IPP, BCTC's requirement to reserve transmission capacity on terms dictated by the supplier (BCTC), from time to time, is too stringent and will continue inefficient utilization of available transmission capacity.

The term "shaped" implies suitability to a customer's need which BCTC proposes no mechanism to meet. An IPP should be able to select how to match the available transmission capacity with its delivery requirements if its initial request, in compliance with the tariff, cannot be met. BCTC should not dictate that "what happens to be left over" product is what the customer must accept or be able to utilize. If a customer is unable to utilize the deficient (from the customer's perspective) transmission capacity offered but could otherwise use some portion of that transmission capacity (if it could shape it to its delivery requirements) the system is foregoing an opportunity to enhance its utilization.

As we understand BCTC's position, it has concerns that allowing customers to "shape" the reservation might result in customers "cherry picking" the most valuable monthly capacity blocks thereby decreasing materially the value of the remaining transmission capacity. However, the concern will not normally apply in the case of an IPP attempting to reserve capacity since the IPP will only reserve based on its own delivery

requirements. Furthermore, appropriate conditions can be placed on the reservation to ensure the system is not disadvantaged (“cherry picked”).

Generators would typically want to reserve transmission capacity in the shape to match the facility output. The facilities partly owned by CBTE are provided as a practical example. The shape of the output varies from facility to facility, hence what is valuable for a particular facility is not necessarily what is valued by other facilities or by the market at large.



CBTE believes that customers should be entitled to shape their LTF PTP request if there is insufficient capacity to provide a reservation on a standard “block” basis. Accordingly, CBTE offers four options as recommendations to enhance BCTC’s proposal in relation to “shaped products” as follows:

1. Allow the IPP to buy based on the IPP’s monthly requirements. BCTC could insist that the shape of the monthly reservation resembles the profile of the IPP’s generator forecast output;

2. Allow the IPP to define no more than two levels of reservation for a 12 month period. For example, if an IPP requests a 100 MW standard block but the supplier (BCTC) can only offer 40 MW during two months of the year, the IPP would be entitled to accept the 40 MW for those two months of the year and further it would be entitled to purchase either 40 MW or 100 MW for every other month of the year;
3. Group or break allowed reservations to natural seasonal block or blocks developed specifically to match system available capacity; and
4. Price monthly reservation capacity to be reflective of the relative value of each month.

CBTE prefers option #1 but would be supportive of any of the four options.

B. Short Term Point to Point Transmission

BCTC's updating of the ST PTP rate formula is an improvement over the existing formula. The new formula has the potential to increase the throughput of the system. It also has the potential to help reduce IPP exposure to transmission cost risk while at the same time is utilizable by BC Hydro for meeting domestic needs.

In particular, CBTE believes that BCTC's formula for discounting and the bi-directional pricing are appropriate at this time. However, it is important that the entire proposal in this regard be approved. Any adjustment could affect CBTE's support for this initiative.

C. Long Term Planning, Open Season and Investment Policy

(1) "Open Season" and BCTC's role in upgrading the transmission system

CBTE is generally supportive of the "Open Season" concept including BCTC's approach to the aggregate of system studies as a means for collecting forecasted use for the transmission system and for implementing system upgrades that are not contemplated by BCTC in its expansion plans. Further supplementing the existing queue-based long-term transmission service requests process with an "Open Season" process provides, in concept, a mechanism to aggregate requests which could benefit the system. However, given the lack of market liquidity, the lumpiness of likely transmission upgrades required and the probability of the timing of the need for access

to coincide given the limited number of potential participants, CBTE does not believe that the “Open Season” concept is likely to resolve the issue of system upgrades for LTF PTP transmission services to any substantial degree.

Accordingly, CBTE believes that the “Open Season” process must not replace BCTC’s overall responsibility to upgrade the transmission system based on appropriate planning. The BC market is not mature enough, nor are there sufficient market participants, to allow the “Open Season” concept to work effectively so as to ensure that all necessary system upgrades are made. The Energy Plan, and subsequent Special Direction #9 to the BCUC clearly expects BCTC to build the transmission system ahead of contracted demand to capture “the benefits, including the benefits related to enhanced access to and expansion of, electricity markets, that the commission considers likely . . . ”. Accordingly CBTE believes the BCTC is required to play a significant role in anticipating and constructing necessary system upgrades independent of the “Open Season” concept. CBTE recommends the BCUC provide as much proactive guidance to BCTC on this issue as possible in the Decision on OATT.

(2) Investment Policy

CBTE is also supportive of BCTC’s new investment policy for customer triggered system upgrades. The proposed modifications to the existing WTS Contribution Policy to increase the level of reimbursement to customers who funded Network Upgrade should enhance the economic viability of projects required to fund Network Upgrades. In CBTE’s view, this approach is superior to the current system even though under the current system the interconnected customer would have a lower initial funding obligation and consequently will require more initial financing for the project.

Although under BCTC’s proposal it is acknowledged that the credit formula proposed by BCTC will not always completely offset, over time, all of the network upgrade costs incurred by the customer, CBTE believes the total transmission cost is more important factor than the initial financing burden. Furthermore, the proposed change brings BCTC’s tariff in line with FERC’s rules which have been subjected to extensive consultation within the energy industry. Therefore, notwithstanding the obvious cost

and related issues which arise under BCTC's proposal, the BCTC approach is moving in the right direction and deserves support at this time.

D. BC Clean Transmission Rate

Given the importance of "BC Clean" power in the Province's Energy Plan, the concept of a preferential transmission rate for generators of "BC Clean" power is innovative, timely and responsive. CBTE believes the rate established by BCTC is properly designed but it disagrees with the eligibility criteria. Although CBTE believes that BCTC appropriately identified the characteristics of most "BC Clean" power facilities (low load factor), BCTC arbitrarily selected the capacity level (50 MW) rather than a capacity factor as a basis for qualification for the energy based rate. Further, it sets a capacity level even though neither the Province nor BCUC has yet defined what facilities will be considered "BC Clean" power. In CBTE's view, until a decision is made on what qualifies as "BC Clean" power, it is premature to artificially determine who will be eligible for the new rate.

CBTE also believes BCTC as an independent transmission operator, should not be, directly or indirectly, involved in defining or qualifying generation resources as "BC Clean" power resources. That designation should be made by the BCUC after careful consideration of all of the issues.

Accordingly CBTE recommends that the "BC Clean" power transmission rate be accepted. However, a decision on the eligibility criteria should be deferred and a public inquiry/consultative process be established to determine the regulatory definition of "BC Clean" power and the eligibility criteria for the BC Clean transmission rate.