

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

and

British Columbia Hydro and Power Authority
Call for Tenders for Capacity on Vancouver Island
Review of Electricity Purchase Agreement

Vancouver, B.C.
January 18, 2005

PROCEEDINGS AT HEARING

BEFORE:

R. Hobbs, **Chairperson**

L. Boychuk, **Commissioner**

VOLUME 7

APPEARANCES

G.A. FULTON
P. MILLER

Commission Counsel

C.W. SANDERSON, Q.C.,
H. CANE
J.C. KLEEFELD

B. C. Hydro

L. KEOUGH

Duke Point Power Limited

C.B. LUSZTIG
A. CARPENTER

British Columbia Transmission Corporation

D. PERTTULA

Terasen Gas (Vancouver Island) Inc.

G. STAPLE

Westcoast Energy Inc.

R. B. WALLACE

Joint Industry Electricity Steering Committee

C. BOIS

Norske Canada

D. NEWLANDS

Elk Valley Coal

F. J. WEISBERG

Green Island Energy

D. LEWIS

Village of Gold River

D. CRAIG

Commercial Energy Consumers

J. QUAIL.
D. GATHERCOLE

BCOAPO
(B.C. Old Age Pensioners' Organization, Council Of
Senior Citizens Organizations Of B.C., End Legislated
Poverty Society, Federated Anti-Poverty Groups Of B.C.
Senior Citizens' Association Of B.C., And West End
Seniors' Network)

W. J. ANDREWS
T. HACKNEY

GSX Concerned Citizens Coalition
B.C. Sustainable Energy Association
Society Promoting Environmental Conservation

R. MCKECHNIE

Himself

R. YOUNG

Gabriola Ratepayers' Associations

K. STEEVES

Himself

1 **CAARS**

2 VANCOUVER, B.C.

3 January 18th, 2005

4 **(PROCEEDINGS RESUMED AT 8:20 A.M.)**

5 THE CHAIRPERSON: Please be seated.

6 I was going to give you a ten-minute
7 reprieve before you were called this morning, but this
8 will make it easier, so thank you.

9 **B.C. HYDRO PANEL 2 - CFT PROCESS & OUTCOME**

10 **MARY HEMMINGSEN, Resumed:**

11 **CHRIS O'RILEY, Resumed:**

12 **GRAEME SIMPSON, Resumed:**

13 **ROHAN SOULSBY, Resumed:**

14 **STEVE ECKERT, Resumed:**

15 THE CHAIRPERSON: We do have some outstanding matters to
16 deal with before we begin, and I think first I should
17 hear from Mr. Sanderson and Mr. Keough with respect to
18 any objections they might have to the filings that are
19 proposed by Green Island Energy.

20 MR. SANDERSON: Thank you, Mr. Chairman. We do object,
21 and I think I can put it quite succinctly, so let me
22 just say what our position is and then we can
23 determine what the appropriate process is.

24 Mr. Chairman, Gold River's bid was
25 accepted. It did meet the mandatory criteria.
26 Because it meets the mandatory criteria, B.C. Hydro

1 acknowledges and has not put in issue in this
2 proceeding, the adequacy of any of the -- or the
3 adequacy of Green Island's material on any of the
4 things covered, I suspect, in those three binders.

5 Oh dear. I'm making these submissions, I
6 see, in the absence of Mr. Weisberg.

7 THE CHAIRMAN: I was aware of that. Please proceed.

8 MR. SANDERSON: Which diminishes their utility. I will
9 proceed.

10 So, our position is not that there's
11 anything wrong with that information, it's simply that
12 it doesn't deal with any matter that at least B.C.
13 Hydro is putting in issue. It's three volumes of
14 material, and I should also indicate that it's three
15 volumes of material that very few people in Hydro have
16 ever seen, which is another complication.

17 **Proceeding Time 8:23 a.m. T02**

18 That is the process in the bidding was that
19 only the technical evaluation committee was permitted
20 to see any of the information that came in from the
21 bidders, and that's very few people. So no one else
22 knows what's in there. Now, we don't take issue with
23 what it's designed to prove. On the other hand, it
24 makes me, personally, as counsel, nervous that three
25 volumes are going in that I've certainly never seen.

26 And so it seems to me what we have here is

1 a scope issue. There is not a point in issue to which
2 this material relates so far as I can see.

3 If there's another party who is putting in
4 issue, and the Commission accepts that it's properly
5 in issue, whether or not Green Island qualified, then
6 I can see it might be relevant. But I haven't seen
7 any other party doing that, and I stand to be
8 corrected by Mr. Keough or someone else, and I haven't
9 heard the Commission rule in a way which would suggest
10 that is an issue that you're concerned about within
11 the scope in this proceeding.

12 And so in the absence of those two things,
13 I say there's no benefit to that evidence being filed.

14 THE CHAIRPERSON: Thank you. Mr. Keough.

15 MR. KEOUGH: Thank you, Mr. Chairman. Duke Point Power
16 is certainly not taking issue with anything that my
17 friend Mr. Sanderson has said. Our concern comes at
18 it from a slightly different direction, and that is as
19 I expressed yesterday. The concern is with the
20 allowance of material to be disclosed on the record in
21 a piecemeal fashion, and obviously the party filing
22 must see some advantage to, at this point in time,
23 sequentially letting pieces of information be made
24 available on a confidential basis.

25 **Proceeding Time 8:25 a.m. T3**

26 And the concern goes more to what I'll call

1 an effort by parties to have the results of the CFT
2 retried in this forum on a very different basis. As
3 you heard yesterday, the rigours of the CFT process
4 and the requirement that they be rigidly followed are
5 to be contrasted with what's going on here, and we
6 just think it is very unfair to allow that type of
7 process to unfold before you for what were competitive
8 bids in the CFT process. And we certainly don't
9 think any remote equal footing is being preserved by
10 the way this record is being developed. And that is
11 what is troubling the fundamental unfairness. In the
12 way that this is being handled is what is troubling to
13 Duke Point Power.

14 We don't take issue with the content of the
15 bid or whether it qualifies or not or anything like
16 that. It is the manner in which this is being
17 approached, and we think that is fundamentally unfair.

18 But Mr. Chairman, it's obviously in the
19 Commission's hands and you will do what you will do,
20 but that is the fundamental unfairness that we see.
21 Thank you.

22 THE CHAIRPERSON: Thank you. Mr. Weisberg.

23 MR. WEISBERG: Good morning, Mr. Chairman. To put my
24 submissions in context, I want to make sure that you
25 and everyone else is aware of what took place
26 yesterday following this, this proceeding.

1 I returned to my office and completed
2 preparation of the IR responses that were due
3 yesterday. As I indicated yesterday in my submissions
4 to you at the end of the day, I indicated then that it
5 was Green Island's position that many of the Duke
6 Point IRs to Green Island are out of scope. I also
7 advised you that notwithstanding that, we had
8 undertaken to respond to them as far as possible, and
9 that we did.

10 And yesterday I filed a letter, and given
11 the timing of the proceeding this morning and the
12 filing yesterday, I'm not sure that everyone has seen
13 that. But there was a letter that went in dated
14 yesterday to the Commission attaching the response of
15 Green Island to the Duke Point IRs and also setting
16 out in some detail the basis for including as part of
17 our response the filing of Green Island's bid
18 submission, that being on a confidential basis to the
19 Commission.

20 **Proceeding Time 8:28 a.m. T04**

21 Mr. Sanderson has indicated this morning in
22 his brief submissions that he is not aware that
23 another party has put in issue matters related to
24 Green Island's bid, and that is the very essence of my
25 submission to you. That's exactly what Duke Point has
26 done, through its Information Requests.

1 Mr. Keough said that there is no issue
2 whether Green Island's bid qualified. But if you look
3 at the Information Request from Duke Point, you will
4 quickly see that a great many of them relate to
5 criteria that Green Island satisfied completely, or
6 its bid would not have gotten as far as it did in the
7 CFT process. And it's worth noting that if Mr. Keough
8 is suggesting that there is some flaw in the process
9 that allowed Green Island's bid to get as far as it
10 did by satisfying the criteria, and that those
11 criteria are in some way defective or fall short of
12 what they should have, then he needs to point out what
13 the problem with those criteria are, or everything
14 that flows from it in terms of his IRs should be out
15 of scope.

16 As far as Mr. Sanderson's other
17 submissions, I would say that B.C. Hydro is in the
18 unique position of being the only party in this
19 proceeding, other than Green Island, that has so far
20 had access to the entire Green Island bid submission.
21 And I note that, notwithstanding what Mr. Sanderson
22 said.

23 **Proceeding Time 8:30 a.m. T05**

24 And I note that, notwithstanding what Mr.
25 Sanderson said, and I know that there are many
26 individuals that work at B.C. Hydro, but as a company

1 they have had that information for months, since
2 August last year. And the testimony of B.C. Hydro's
3 witnesses suggests that all sorts of checks and
4 balances ensured that every aspect of Green Island's
5 bid was considered or, in some cases, even re-
6 considered. And the Commission's panel's acceptance
7 of the filing that we propose can't possibly result,
8 we say, in any prejudice to B.C. Hydro. And nor does
9 it create the need for any review that hasn't already
10 been, or should have been, completed months ago.

11 The testimony of B.C. Hydro's witnesses
12 also suggests that there's a -- what I'll call a
13 corporate zeal for minimizing regulatory risk. And
14 accordingly, I would think that B.C. Hydro would
15 welcome the filing of Green Island's bid submission,
16 as it puts the Commission panel in a better position
17 to determine the most cost-effective alternative to
18 address the capacity shortfall on Vancouver Island.
19 Perhaps that's Duke Point, perhaps that's Green
20 Island. But more information will assist you in that
21 determination.

22 The irony of the position taken by Mr.
23 Keough is that the only reasonable basis for objecting
24 to the filing of Green Island's entire bid submission
25 is that the majority of his own client's Information
26 Requests are out of scope. Consider that if the

1 Information Requests from Duke Point are in scope,
2 then Green Island is required by the rules of this
3 proceeding to respond. And practice may well be that
4 some parties typically provide as little information
5 as possible in response to IRs. That doesn't mean
6 that parties are limited to that generally-unhelpful
7 style of response. Indeed, the evidentiary record is
8 far better served when parties fully and directly
9 address the matters addressed in IRs. Beyond the
10 procedural obligation to respond, it's Green Island's
11 right to complete -- to provide complete responses to
12 the IRs.

13 Duke Point has asked a series of questions
14 so broad that they purport to put virtually every
15 aspect of Green Island's bid submission in scope and
16 at issue. Duke Point's Information Requests are so
17 extensive that they are entirely disproportionate to
18 Green Island's role in this proceeding. Duke Point
19 should not be heard to object or complain about Green
20 Island's response being too complete or too
21 responsive, if that's possible, to questions that Duke
22 Point apparently contends are in scope.

23 I acknowledge that there's one basis, one
24 reasonable basis, for Duke Point to object to the
25 filing of Green Island's submission as part of the
26 response to Duke Point's Information Request, and that

1 is, if Duke Point concedes that all or most of its
2 Information Requests are out of scope. And in that
3 case, Duke Point should identify such Information
4 Requests, immediately withdraw them, and take an
5 extremely conservative approach to cross-examination
6 of Green Island's witness panel.

7 In the unlikely event that Duke Point makes
8 that concession, we submit that the Commission panel
9 should consider whether Duke Point's disregard of the
10 Commission panel's rulings on scope amounts to an
11 abuse of process. Duke Point's Information Requests
12 have required a very significant effort on Green
13 Island's part to respond.

14 Regarding Mr. Keough's concern about
15 piecemeal filings, I'm not really sure what that
16 means, or what the -- what significance you should
17 attribute to it. But I do note that the Duke Point
18 IRs were filed after the deadline for filing
19 intervenor evidence, and so of course Green Island's
20 responses would necessarily have to be filed after
21 that same deadline.

22 Mr. Chairman, I'd ask that you also
23 consider the letter from myself dated yesterday as
24 part of my submissions before you make your ruling on
25 this. If you like, I will address it now. Otherwise,
26 I would ask that you reserve your decision until after

1 you have reviewed that letter, as it sets out --

3 Mr. Keough, do you want to respond after
4 you've read Mr. Weisberg's letter, or do you want to
5 respond now?

10 | Proceeding Time 8:35 a.m. T6

20 I will take a look at his letter, Mr.
21 Chairman, but I really am not sure I have much further
22 to comment on. My position is pretty clear as to why
23 I'm taking the view I am on the filing of the three
24 binders of confidential material, and I don't think
25 that's going to change by reading his letter.

1 the letter from Mr. Weisberg we need not hear from you
2 again before we make a ruling with respect to this
3 issue?

4 MR. KEOUGH: I think that's right.

5 THE CHAIRPERSON: Okay. Mr. Weisberg, we will review
6 your letter.

7 MR. WEISBERG: Thank you, Mr. Chair.

8 THE CHAIRPERSON: I would ask that participants in this
9 process file hard copies of the documents that they
10 intend to be filed in the proceeding during the course
11 of the oral hearing.

12 There is one correction to the record that
13 I would like to make. In Volume 6, page 1052, line 22
14 reads:

15 "...allocation of time, I expect that I will
16 expect that..."

17 The second reference to "expect" should be "accept".

18 "...I expect that I will accept that
19 allocation."

20 Yesterday, Mr. Wallace was given
21 considerable latitude with respect to cross-
22 examination. If I provide the same latitude to the
23 remaining intervenors to cross-examine this panel, we
24 will not be on schedule and as I've said many times,
25 it's my intent to ensure that we are on schedule.

26 So I've identified areas that I believe are

1 already well-canvassed. They are the Calpine letter,
2 the electricity and gas price forecast -- and for
3 those of you who have not filed evidence in that area,
4 I expect that you will be particularly careful about
5 the rigour of your cross-examination in that area.
6 Changes in technology, they were canvassed thoroughly
7 in the VIGP proceeding and nothing new came from that
8 review and Mr. Wallace did have the opportunity, if he
9 wished, to rely on that evidence, to identify it in
10 the VIGP proceeding. And the QEM model itself. A lot
11 of Mr. Wallace's questions about the mechanics of the
12 QEM model were in the evidence already, particularly
13 the questions that he raised prior to the break.

14 If you have questions regarding the QEM
15 model I want to know at the commencement of your
16 cross-examination if you have requested a copy of it.
17 If you have not and still have questions about the QEM
18 model, then the panel is instructed not to answer the
19 question until I have approved the question.

20 **Proceeding Time 8:40 a.m. T07**

21 And I'm expecting that you will be about 30 minutes in
22 cross-examination. Otherwise, we will not get through
23 our schedule today. I will provide some flexibility
24 with respect to that allocation of time, but I would
25 like you to endeavour to keep your cross-examination
26 to about that length of time.

1 Are there any other preliminary matters?

2 MR. FULTON: Mr. Chairman, I just wanted to follow up on
3 your request that people file hard copies, and to
4 emphasize that the importance of filing hard copies
5 during the course of the proceedings is so that we can
6 keep the exhibit list up to date. There's a lag time
7 if people are just filing electronically, of one to
8 two days, and so we want the exhibit list to be
9 accurate and it is very important that people do that.

10 THE CHAIRMAN: Thank you, Mr. Fulton. It's also helpful
11 for the panel.

12 Hearing that there are no other matters,
13 Mr. Fulton, you can call the next cross-examiner.

14 MR. FULTON: Norske Canada, Mr. Bois.

15 MR. BOIS: Mr. Chairman, I think -- well, first of all,
16 good morning. And good morning, Commissioner Boychuk.

17 I think I need to put, with all due
18 respect, some comments on the record with respect to
19 your opening comments with respect to cross-
20 examination, and also the areas of cross-examination.
21 I think it's dangerous ground for the panel to start
22 limiting people's cross-examination, not only from a
23 time perspective but also from a scope perspective, on
24 the basis of the evidence that they've filed.
25 Everyone here has an interest that may or may not be
26 conveyed through the evidence that they've filed, and

1 there are a number of stakeholders here who are very
2 interested in the outcome of this hearing, who have a
3 number of questions that should be explored, and on
4 the basis that they haven't filed evidence to deny
5 that right, seems to me to be inappropriate. And I
6 just would caution the panel to -- with all due
7 respect, tread lightly in that respect.

8 THE CHAIRMAN: I have not done what your comments just
9 suggest, Mr. Bois. But, if you haven't filed evidence
10 with respect to the gas and electricity price
11 forecasts, then I encourage you to be looking to the
12 evidence that Mr. Wallace has already obtained in his
13 cross-examination. And, if you haven't requested a
14 copy of the QEM model, I want to -- and you intend to
15 ask questions in that area, I want to know whether or
16 not you've requested a copy of the QEM model, and then
17 this panel is not to answer the question that you
18 might have in that area if you have not requested a
19 copy of it until I've said that the question is okay.

20 MR. BOIS: No, I appreciate that, Mr. Chairman. It was
21 just a general concern that I had.

22 Now, as far as relying on other intervenor
23 evidence and questions and cross-examination, I went
24 through my cross last night to eliminate what I
25 thought were duplicate areas of questioning, in much
26 the same vein that you have with the concern, that we

1 would be in time today. I also would have intended to
2 rely on other intervenor evidence in argument. So I
3 don't think it's -- I think we're on the same page, I
4 just think we need to be a little bit cautious how far
5 we go down this slippery slope, that's all. That's my
6 only comment.

7 THE CHAIRMAN: Please proceed.

8 MR. BOIS: I'll try to do it within the 30 minutes. Even
9 though I pared it down last night, I -- if I don't
10 finish, I will, just for the sake of the record, note
11 my objection to the time limit.

12 THE CHAIRMAN: Well, Mr. Bois, there is no time limit.
13 I'm simply encouraging you to try to stick to the 30
14 minutes.

15 MR. BOIS: Oh, okay. Then I misunderstood. I apologize.
16 Thank you, Mr. Chairman.

17 **CROSS-EXAMINATION BY MR. BOIS:**

18 MR. BOIS: Q: Good morning, panel. I'm not sure that
19 I'm going to have any questions on the QEM model, but
20 I think it depends somewhat on your responses. So I
21 will -- as we go along, if I have a question, Mr.
22 Chairman, I'll bring it to your attention before I ask
23 it.

24 THE CHAIRMAN: That's because you have not asked for a
25 copy of the QEM model.

26 MR. BOIS: Yes.

1 THE CHAIRMAN: Thank you.

2 MR. BOIS: Q: Now, yesterday, Ms. Van Ruyven mentioned
3 rate 1852 provides some form of load shedding, and I
4 think, Ms. Hemmingsen, you were in the room when that
5 was made -- when that comment was made. Do you recall
6 that?

7 MS. HEMMINGSEN: A: I do recall that.

8 MR. BOIS: Q: Now, does B.C. Hydro consider the Norske
9 proposal, the demand management proposal, to be a
10 program of curtailment similar to the 1852 program?

11 MS. HEMMINGSEN: A: I'm not entirely familiar with the
12 1852 program as rate, and the way that we have
13 interpreted Norske's proposal based on their
14 application to the B.C. Transmission Company's Capital
15 Plan was as a load shifting proposal.

16 MR. BOIS: Q: Okay. Would you also say that there's
17 also a demand, a load curtailment element, to that
18 proposal? That there is a --

19 MS. HEMMINGSEN: A: That's my understanding of the
20 proposal, in that we can pay Norske to shut down.

21 MR. BOIS: Q: Okay. Now, does anyone else on the panel
22 aware of the rate -- 1852 and the comment

23 **Proceeding Time 8:45 a.m. T08**

24 MR. BOIS: Q: Okay. Now, is anyone else on the panel
25 aware of the rate 1852 and the comments or questions
26 that I just asked? No? Mr. Soulsby, you sort of

1 raised your finger. I just wondered -- okay. I just
2 want to make sure you have the opportunity to speak.

3 So then let's answer the next question. So
4 does anyone have any knowledge of the rate 1852 and
5 how it was started? Nobody at this panel has.

6 Would it surprise you to know that it was
7 initiated by Norske? So you have no information to
8 add to that. Okay, thank you.

9 MR. FULTON: Mr. Chairman, we do need an audible answer
10 on the record.

11 MS. HEMMINGSEN: A: No.

12 MR. BOIS: Q: Thank you.

13 Now on page 1 of the CFT background, and
14 I'll let you look at that but if you want to -- I'm
15 just going to refer to line 13 and 14. B.C. Hydro
16 makes the comment that every plausible solution to
17 Vancouver Island's problems has been extensively
18 studied. Do you have that reference?

19 MS. HEMMINGSEN: A: I do.

20 MR. BOIS: Q: Could you tell me what extensive studies
21 you've done?

22 MS. HEMMINGSEN: A: Well, over the past ten years we've
23 looked at our supply/demand requirements and the
24 capacity balance on Vancouver Island, and proceeded on
25 the basis of N minus 1 reliability criteria,
26 identified a range of new generation opportunities

1 that would meet that N minus 1 planning criteria as
2 well as transmission opportunities, been through
3 various regulatory hearings and processes starting in
4 1994.

5 MR. BOIS: Q: So is it fair to say that for the past
6 ten years B.C. Hydro has been focused on basically two
7 options, generation or transmission?

8 MS. HEMMINGSEN: A: I haven't been involved in this
9 file for ten years, so I can't speak to what we may
10 have considered earlier.

11 MR. BOIS: Q: Can anybody else add to that?

12 MR. SOULSBY: A: No.

13 MR. BOIS: Q: No, you can't add to that?

14 MR. SOULSBY: No, I cannot add to that.

15 MR. BOIS: Q: Okay. So, but the only studies that you
16 mentioned were generation and transmission, so I'm
17 going to assume that those are the only studies that
18 you undertook? Unless you want to check and get back
19 to me.

20 MS. HEMMINGSEN: A: But the only studies that I'm aware
21 of under my tenure are looking at meeting the N minus
22 1 planning criteria, which is based on either new
23 generation or transmission options.

24 MR. BOIS: Q: Okay. Would you be willing to endeavour
25 to find out if there were any other studies that
26 looked at anything other than generation or

1 transmission? If it's an extensive task I don't want
2 to put you through an extra effort, but I just would
3 like to know generally speaking.

4 MR. SANDERSON: Mr. Bois, by that -- the only thing I can
5 think of besides generation and transmission is
6 demand-side management. Is that related to your
7 question or is it something else?

8 MR. BOIS: Q: Well, just demand-side management or were
9 there other options, including potentially different
10 kinds of ways of serving the load.

11 MS. HEMMINGSEN: A: Yeah, and sorry, I was
12 characterizing demand-side management as being a net
13 reduction off our load requirements on a permanent,
14 ongoing basis, so.

15 MR. SANDERSON: What I'm trying to get at is I'm not sure
16 what it is Mr. Bois thinks isn't covered by what Ms.
17 Hemmingsen has talked about.

18 MR. BOIS: Well, as I understand the answer, the only
19 studies that have been involved are generation and
20 transmission. I want to know if there's any other
21 studies that have looked at other options, which may
22 include demand-side management.

23 MR. SANDERSON: All right. Well, we can undertake to
24 check on that topic.

25 MR. BOIS: It shouldn't be a hard question, I don't
26 think. If it is, just let me know and we'll let it

1 stand the way it is. Thank you.

2 MS. HEMMINGSEN: A: Okay.

3 **Information Request**

4 MR. BOIS: Q: Now, can you also tell me whether there
5 was any involvement of stakeholders in those studies?

6 MS. HEMMINGSEN: A: I took on responsibility for
7 planning and forecasting at B.C. Hydro less than 18
8 months ago, so I'm not aware of what stakeholder
9 engagement activities we undertook prior to that.

10 MR. BOIS: Q: Could you endeavour to find that out as
11 well? And I'm not asking for a broad, you know, list
12 of show hauls and things like that. I'm just asking
13 to find out how you would have gotten stakeholder
14 involvement. I don't think it's a difficult question,
15 but if it causes grief I'll let it slide.

16 MS. HEMMINGSEN: A: Okay.

17 MR. SANDERSON: Again we'll check. We'll also check the
18 VIGP record.

19 **Information Request**

20 MR. BOIS: Thank you.

21 MR. BOIS: Q: Now, you mentioned transmission. Did
22 B.C. Hydro over the ten years, and Ms. Hemmingsen, I
23 don't know if you're going to be able to answer this
24 question either, but did B.C. Hydro look at expediting
25 the 230 kV line to a sooner date than 2007-2008?

26 MS. HEMMINGSEN: A: My knowledge of the timing of the

1 cable is based on my information from the past 18
2 months, and we had requested BCTC maintain the
3 earliest in-service date, and Mr. Soulsby in fact had
4 filed a letter, a formal letter to BCTC requesting
5 that and received a response from them.

6 **Proceeding Time 8:50 a.m. T09**

7 MR. BOIS: Q: So prior to BCTC's involvement as a
8 corporation and a separate entity from B.C. Hydro,
9 what did B.C. Hydro do with respect to expediting the
10 230 kV line?

11 MS. HEMMINGSEN: A: I'm not aware of what we did prior
12 to 18 months ago.

13 MR. BOIS: Q: I would have thought that that would have
14 been one your plausible solutions that would have been
15 answerable.

16 MR. SANDERSON: Mr. Chairman, I'm having trouble with
17 this. Whether or not Hydro should have proceeded with
18 the generation on the Island or transmission prior to
19 18 months ago was the subject matter of a very long
20 hearing 18 months ago. And I guess I just cannot
21 understand where these questions could be going except
22 to rehash the issues that were put to bed in the VIGP
23 proceeding.

24 MR. BOIS: Sorry. Mr. Chairman, B.C. Hydro has
25 supported it's application by the comment that it saw
26 -- it's looked at every plausible solution. In VIGP,

1 although we were allowed to canvas transmission
2 capacity, as I recall it was a very narrow ability to
3 canvas that scope, it was almost -- similar to the
4 derating and scheduling of the HVDC in this hearing.
5 It was ruled out of scope.

6 So I'm a little bit concerned that we use
7 the VIGP as the benchmark and we're getting caught
8 with issues that were out of scope in VIGP, we're
9 raising issues that were now out of scope in this
10 hearing, and how do we get these issues into scope so
11 that they are even considered? I just don't
12 understand the logic here.

13 And if B.C. Hydro can make the comment that
14 every solution has been canvassed and studied
15 extensively in this application, then they should be
16 subject to check on that.

17 THE CHAIRPERSON: Your recollection of the VIGP scope,
18 subject to check, I think is incorrect. There was
19 extensive evidence with respect to the 230 kV line
20 versus the option of on-Island generation and the VIGP
21 decision concluded that on-Island generation should be
22 the next logical step. You have considerable room, I
23 think, with respect to this in the context of the
24 principle issue for this proceeding. But that is
25 different than pursuing this in the context of whether
26 or not the next logical step is on-Island generation

1 of the 230 kV line.

2 MR. BOIS: Well, with all due respect, Mr. Chairman, I
3 think the VIGP decision of the Commission was
4 referenced and I think the comment made by the
5 Commission was, "In light of the evidence filed in
6 this hearing". And I think that given that the
7 evidence was a fairly narrow issue, if other evidence
8 had been filed it's quite likely that the Commission
9 might have made a different comment.

10 So with respect, I'm wondering how the
11 Commission can get that other evidence in front of it
12 to make a reasonable decision.

13 THE CHAIRPERSON: You see that's the characteristic that
14 you're giving to the VIGP scope of review that, as I
15 say subject to check, it concerns me, because it's not
16 my recollection of the VIGP scope.

17 MR. BOIS: Okay, I'll move on, but I'll take your point.
18 Thank you, Mr. Chairman.

19 THE CHAIRPERSON: In fact, the decision expressly speaks
20 to the issue of alternatives for supply to Vancouver
21 Island. You are suggesting that they were not all
22 well canvassed in that proceeding, and that's what I'm
23 concerned about. I don't think that the record will
24 show that.

25 MR. BOIS: Okay, thank you, Mr. Chairman. If that's the
26 case, I apologize in advance.

1 MR. BOIS: Q: Now, I'd asked the panel to draw it's
2 attention to the BCTC response to the Duke Point IR
3 question 1.2 and 1.4. Essentially that response
4 suggests that the new transmission line would only
5 have a lead time of about 18 months, which is similar
6 to what we are talking about for this plant, is that
7 correct?

8 MS. HEMMINGSEN: A: I'd like to get that reference and
9 look at what it specifically says.

10 MR. BOIS: Q: Thank you, please do.

11 MS. HEMMINGSEN: A: Could you restate the reference,
12 please?

13 MR. BOIS: Q: It's the responses to the Duke Point
14 questions 1.2 to 1.4. And they are BCTC's answers.

15 MS. HEMMINGSEN: A: Sorry, it's 1.2 and?

16 **Proceeding Time 8:55 a.m. T10**

17 MR. BOIS: Q: 1.2 through 1.4. Basically it talks
18 about the lead time of the supply of the cables and
19 the installation barges and things like that. And I
20 think BCTC characterizes it as being an 18-month lead
21 time.

22 MS. HEMMINGSEN: A: My reading of this says "the
23 estimated time required from placing an order to
24 completion of installation for a turnkey contract of
25 the 230 kV submarine cable is 18 months." So my
26 reading of that would be that there is pre-development

1 work underway and pre-approval work that precedes that
2 placing of the order. And also some work on a turnkey
3 contract that I'm not aware of has been advanced.

4 MR. BOIS: Q: Okay. Now, what I want to ask you,
5 though, is, hypothetically --

6 MS. HEMMINGSEN: A: Sorry, can I go through the other
7 ones too, please?

8 MR. BOIS: Q: Oh, sure. Go ahead. It's -- I think the
9 response -- the answers basically refer back to that
10 answer. But you can feel free, please do check.

11 MS. HEMMINGSEN: A: I haven't read these, so I would
12 like to read them.

13 MR. BOIS: Q: Go ahead.

14 MS. HEMMINGSEN: A:

15 "1.3 What is the estimated lead time for
16 securing the services of a cable-laying
17 ship?

18 BCTC intends to contract for the
19 manufacture, delivery and installation of
20 the 230 kV submarine cable in a single
21 contract, including the services of a cable-
22 laying ship. Therefore, the lead time is
23 included in the response."

24 So, once again, I don't see any allowance for the pre-
25 development and approval processes that need to occur,
26 which I understand can take anywhere from 12 to 24

1 months.

2 MR. BOIS: Q: Now, wouldn't it be conceivable that BCTC
3 could enter into those contracts on much the same
4 basis that you're entering into the Duke Point
5 contract? And that is, subject to regulatory
6 approval?

7 MS. HEMMINGSEN: A: I'm not sure on what basis they
8 could enter into those contracts, or at what point
9 they envision entering into those contracts. I
10 understand that they filed a project schedule report
11 with their Capital Plan, and that there's a number of
12 stages that need to be completed, basically in
13 sequence.

14 MR. BOIS: Q: Okay. Well, I won't belabour the point.
15 I think it's safe to say, though, that if an
16 application was filed today, based on those answers,
17 we'd be looking at an 18-month timeline.

18 MS. HEMMINGSEN: A: I think the difference between
19 BCTC's status and DPP's status is, DPP is a binding
20 contract to deliver at a date certain time, whereas
21 BCTC is best-efforts, with a process that requires
22 significant approvals, and development milestones to
23 be met, whereas Duke Point has already achieved fully
24 permitted status. So I would characterize the two
25 projects quite differently.

26 MR. BOIS: Q: Okay, thank you. Now, I'd just like to

1 know, moving on to the Norske proposal, what
2 assumptions, if anything, has B.C. Hydro made about
3 the Norske proposal or other demand-side management
4 options generally?

5 MS. HEMMINGSEN: A: Well, the issue for B.C. Hydro with
6 the Norske proposal is, Norske was a bidder in the CFT
7 process. And there was some anti-contact, or anti-
8 lobbying rules that were outlined and applied to all
9 bidders in the process. So we could not be in contact
10 with Norske until after the CFT process was conducted.
11 We were aware that they had filed an application or
12 some information with the BCTC Capital Plan, and we
13 accessed that information to represent the Norske
14 option as part of the Tier 2 and no award analysis
15 that we conducted.

16 MR. BOIS: Q: So you actually evaluated the Norske
17 proposal?

18 MS. HEMMINGSEN: A: We extracted the information that
19 was provided in that proposal and represented it in
20 the cost-effectiveness analysis.

21 MR. BOIS: Q: You did. Okay. Well, that --

22 MS. HEMMINGSEN: A: And furthermore, in terms of the
23 gap that we're facing on Vancouver Island, the Duke
24 Point project does not fully close the gap. So we
25 anticipate needing to access contingency measures like
26 Norske's proposal regardless of what option we pursue.

1 MR. BOIS: Q: Well, actually, I wanted to get into that
2 a little bit, actually, because I think Ms. Hemmings,
3 you were quoted in *The Sun* yesterday --

4 MS. HEMMINGSEN: A: Hemmingsen.

5 MR. BOIS: Q: Oh, I'm sorry, Hemmingsen. I apologize.
6 You were quoted in *The Sun* yesterday as in fact
7 relying on the Norske proposal. Was that a fair
8 quote? Have you seen that article?

9 MS. HEMMINGSEN: A: I have not seen the article, and --

10 MR. BOIS: Q: I have it with me, but I didn't bring it
11 up. Just one moment.

12 It turns out that I didn't bring it, so
13 I'll bring it later, and put it to you then.

14 MR. SANDERSON: Don't feel obliged, just ask her --

15 MR. BOIS: Q: Well, it's --

16 MR. SANDERSON: Whether it's in *The Vancouver Sun*, I
17 submit, has got no relevance to anything. Just put
18 the proposition to the panel and see what they have to
19 say about it.

20 MR. BOIS: Q: Right. Well, thanks.

21 The proposition, I guess, was that in the
22 article yesterday, you were credited with saying, and
23 it wasn't in quotation marks, so I won't say you were
24 quoted, and if I did that earlier I'll restate it;
25 that you were credited with saying that B.C. Hydro is
26 relying on the Norske proposal.

1 MS. HEMMINGSEN: A: I don't recall making that
2 statement.

3 MR. BOIS: Q: So that's not a correct statement?

4 **Proceeding Time 9:00 a.m. T11**

5 MS. HEMMINGSEN: A: Well, (a), you've said it's not in
6 quotes, and I don't recall making that statement.

7 MR. BOIS: Q: Okay, so given that and given subject to
8 check, would you be looking to clarify that for the
9 public and your stakeholders? Or would you just let
10 the record stand the way it is?

11 MS. HEMMINGSEN: A: I would like to see the article and
12 review exactly what I said to the reporter on Friday,
13 actually, it was.

14 THE CHAIRPERSON: How is that relevant to this
15 proceeding?

16 MR. BOIS: Well, it's relevant because Norske has -- or
17 B.C. Hydro has said that the Norske proposal wasn't
18 considered. And it's relevant because --

19 THE CHAIRPERSON: That might be --

20 MR. BOIS: It's also relevant because in this application
21 they've said later on and I'm going to get to that,
22 that they're going to rely on the Norske proposal.
23 How can they do that if they haven't talked to Norske?

24 THE CHAIRPERSON: How is it relevant whether or not Ms.
25 Hemmingsen corrects the public record, or at least the
26 record in the newspaper?

1 MR. BOIS: Well, I would think from a corporate public
2 perspective they wouldn't want it to be let out there
3 that if they're not going to rely on this proposal,
4 that the record should be straight.

5 THE CHAIRPERSON: Why should I care?

6 MR. BOIS: Well, okay, fair enough. Your point is taken.
7 I think Norske cares and I think B.C. Hydro should
8 care.

9 THE CHAIRPERSON: But it's not relevant to the record in
10 this proceeding, Mr. -- well.

11 MR. BOIS: Well, the record, this record forms part of
12 the public record just as much as these papers.

13 MR. BOIS: Q: Now, would it be possible for B.C. Hydro
14 to design a load curtailment or design-side [sic]
15 management project that would allow it to meet an N1
16 criteria?

17 MS. HEMMINGSEN: A: Could you repeat your question
18 please?

19 MR. BOIS: Q: Would it be possible for B.C. Hydro to
20 develop a demand-side or load -- demand-side
21 management or load curtailment program or contract
22 with a customer such as Norske, that would allow B.C.
23 Hydro to reduce its loads to Norske and still meet the
24 N1 criteria?

25 MS. HEMMINGSEN: A: Well, I think we're active on that
26 front with our significant demand-side management

1 activity. In fact, there's almost 100 megawatts of
2 demand management activity assumed in determining what
3 the gap on Vancouver Island is, and Norske as one of
4 the largest customers would contribute to that,
5 realizing that volume.

6 MR. BOIS: Q: Well, but as I understood the answers
7 yesterday and the answers from Mr. Van Ruyven, those
8 are permanent load losses or load shedding. I'm not
9 talking about a permanent load loss. I'm talking
10 about a load curtailment or demand management where
11 you would enter into a different kind of structure or
12 agreement whereby Norske, for example, as the largest
13 consumer on the Island, would shift its load.

14 MS. HEMMINGSEN: A: Right. And I guess why we're here
15 and what we predicated the resource option that we're
16 putting forward is the Commission's direction from the
17 VIGP decision that we were to look for on-Island
18 generation. And that's what the CFT does, and as long
19 as it's cost-effective we did not have to consider
20 other options such as load shedding or various
21 contingency bridging measures.

22 MR. BOIS: Q: Okay. In light of that, then, would you
23 -- on page 22 of the VIGP decision, the Commission
24 also made the comment that

25 "Arrangements with Norske Canada to short-
26 term load curtailments are an attractive

1 option in the event that B.C. Hydro needs to
2 bridge a period until a resource like the
3 230 kV line or other Island generation or
4 even VIGP, are completed."

5 Do you have that? It's on page 22.

6 MR. SOULSBY: A: Okay, could you point to where on
7 page 22 it is?

8 MR. BOIS: Q: Sure. It's the third paragraph on page
9 22.

10 MS. HEMMINGSEN: A: And the manner in which B.C. Hydro
11 has represented that is in the cost-effectiveness
12 analysis, which is actually Panel 4, where we looked
13 at that type of option and compared it to the merits
14 and economics of the on-Island solution that the CFT
15 pursued.

16 MR. BOIS: Q: So my questions regarding that whole area
17 would be better directed to Panel 4?

18 MS. HEMMINGSEN: A: I think so.

19 MR. BOIS: Q: Okay, thank you.

20 Now, would also comments on page 17 and 18
21 of the CFT, would they be directed -- if I want to
22 talk about your contingency measures to meet the
23 shortfalls of insufficient capacity, would they be
24 better directed to you or to Panel 4?

25 **Proceeding Time 9:05 a.m. T12**

26 MS. HEMMINGSEN: A: I think so, but can I find the

1 reference first?

2 MR. BOIS: Q: Sure. Well, I'm going to deal with the
3 lines -- page 17 and 18. So it will be starting
4 around lines 10 on page 17 through page 18. So they
5 would be better directed to Panel 4.

6 MS. HEMMINGSEN: A: Yes.

7 MR. BOIS: Q: Okay, thank you. Now, isn't it true that
8 Norske withdrew from the CFT process?

9 MS. HEMMINGSEN: A: My understanding is Norske did not
10 submit a bid.

11 MR. BOIS: Q: Okay. Now, given that Norske didn't
12 submit a bid, do you feel that B.C. Hydro was still
13 bound by the anti-lobbying requirements of the CFT?

14 MS. HEMMINGSEN: A: Well, until August 13th, which I
15 believe the date of the bids being received, we didn't
16 know what Norske's status was.

17 MR. BOIS: Q: So after Norske decided not to submit a
18 bid, in your words, would you have been bound by that
19 requirement?

20 MS. HEMMINGSEN: A: I'd have to seek the advice of our
21 lawyer to answer that.

22 MR. BOIS: Q: Okay, well, subject to check with your
23 lawyer.

24 MR. SANDERSON: Well, no. No.

25 MS. HEMMINGSEN: A: It's not this lawyer.

26 MR. BOIS: Q: Not this lawyer?

1 MR. SANDERSON: A) Not this lawyer. B) I'm not going to
2 ask any other lawyer to offer hypothetical legal
3 advice. If you want to ask whether they felt bound or
4 whether they felt free to talk to Norske, I think that
5 questions already been answered, but I have no
6 objection to it. But in terms of what legal advice
7 they got, I do have every objection to it.

8 MR. BOIS: Q: Okay, did you feel bound not to talk to
9 Norske at that point?

10 MS. HEMMINGSEN: A: Certainly until August 13th and then
11 by September Norske had filed their information with
12 BCTC's capital plan which gave us a sufficient basis
13 to evaluate the option, and that's represented in the
14 cost-effectiveness analysis.

15 MR. BOIS: Q: Okay, now Mr. Soulsby, I'm going to
16 direct this question to you, but I don't mean to pick
17 on you, but I understand that you were one of the
18 participants here. I understand that after Norske
19 decided not to, or did not submit a bid, it invited
20 representatives of B.C. Hydro, including yourself, to
21 attend a meeting to discuss Norske's proposal. Did
22 you attend that meeting?

23 MR. SOULSBY: A: No, I did not attend that meeting. I
24 recall the invitation and in fact the decision was
25 taken not to attend the meeting for the reasons that
26 we've just discussed.

1 MR. BOIS: Q: So you did feel bound not to talk to
2 Norske about it.

3 MR. SOULSBY: A: At that point, yes.

4 MR. BOIS: Q: Now, once Norske had submitted it in
5 September and it was a matter of public record, did
6 make any inquiries or do you know if anyone at Hydro
7 made any inquiries to see if that invitation was still
8 open or to take Norske up on that invitation?

9 MS. HEMMINGSEN: A: Well, I guess at that point we'd
10 had a fairly formal proposal filed with BCTC which
11 provided a sufficient basis for us to represent it in
12 the cost effectiveness analysis.

13 MR. BOIS: Q: But it -- didn't it stimulate an interest
14 on your part?

15 MS. HEMMINGSEN: A: Well, sure it did. It's
16 represented in the cost-effectiveness analysis as an
17 option to bridge the gap.

18 MR. BOIS: Q: But how would Norske have known that you
19 were even interested in their proposal if you didn't
20 talk to them?

21 MS. HEMMINGSEN: A: Until this proceeding concluded we
22 weren't in a position to determine what our
23 requirements would be or what we might need of Norske,
24 and furthermore, that would be a consultation that
25 would be jointly, presumably between BCTC and B.C.
26 Hydro to bridge any gaps.

1 MR. BOIS: Q: Did you talk to BCTC about it?

2 MS. HEMMINGSEN: A: Yes, I've had a number of
3 conversations with Yakout Mansour about the possible
4 need for bridging and gap filling under various
5 scenarios of outcomes.

6 MR. BOIS: Q: And what were those -- what were the
7 outcomes of those discussions?

8 MS. HEMMINGSEN: A: That we needed to wait until the
9 CFT process was completed when we'd know what our
10 specific requirements were.

11 MR. BOIS: Q: Well, I'm confused because my
12 understanding is BCTC participated in several meetings
13 with Norske about the demand -- and management
14 proposal. I'm at a loss to understand why you didn't.

15 Well, when I say "you" I mean B.C. Hydro.

16 MS. HEMMINGSEN: A: I can't speak to what BCTC did or
17 didn't do.

18 MR. BOIS: Q: So I'm just at a loss, you know. You
19 have this proposal. You say in your CFT that it's
20 there, you're going to rely on it potentially, but you
21 don't talk to them. I just -- I don't understand
22 that. Could you help me understand that?

23 MS. HEMMINGSEN: A: Well, we were involved in a CFT
24 process which was not concluded until mid-November and
25 we put forward our application after evaluating the
26 various contingency options, and I guess my position

1 is until this process concludes on February 17th, we
2 don't know what we need of Norske.

3 MR. BOIS: Q: Okay. Now, Ms. Hemmingsen at lines 21
4 through 22 of your direct evidence, you discuss
5 uncertainties with respect to portable generators.
6 Now, would that be a question I should better address
7 to Panel 4?

8 MS. HEMMINGSEN: A: Yes.

9 MR. BOIS: Q: Okay. And would questions regarding the
10 comments that you make in lines 23 to 26 on page 18 of
11 the CFT which deal with the alleged risk that Norske
12 proposal carries, would they be better addressed to
13 Panel 4?

14 MS. HEMMINGSEN: A: They would.

15 **Proceeding Time 9:10 a.m. T13**

16 MR. BOIS: Q: Okay, thank you.

17 Now I have some further questions arising
18 out of your direct evidence, and I'll try to be quick,
19 so that other intervenors have an opportunity. In
20 response to question 16 of your evidence, Ms.
21 Hemmingsen, you indicate that the cost-effective
22 analysis was at a high-level review.

23 MS. HEMMINGSEN: A: That's correct.

24 MR. BOIS: Q: And that you were -- did that to
25 determine if there were any compelling reasons to
26 reject the Tier 1 outcome.

1 MS. HEMMINGSEN: A: Correct.

2 MR. BOIS: Q: Aside from a negative or an undesirable
3 NPV, would there be any other compelling reasons to
4 reject it?

5 MS. HEMMINGSEN: A: We looked at a number of
6 uncertainties that we were -- thought important in
7 managing the supply/demand balance, among them the
8 timing of the cables, the load requirements that we
9 might face, and gas/electricity price relationships.
10 So we looked at both quantitative and qualitative
11 factors in that high-level analysis.

12 MR. BOIS: Q: Okay. And as a result, you found that
13 there were no compelling reasons as -- in all of those
14 other uncertainties.

15 MS. HEMMINGSEN: A: That's right. And in assessing
16 cost-effectiveness, we took into account the
17 Commission's direction on that, to consider
18 reliability, timing, location, and other non-cost
19 factors.

20 MR. BOIS: Q: Okay. Now, in that cost-effectiveness
21 analysis, and I'm going to talk to Appendix J here,
22 would that be Panel 4?

23 MS. HEMMINGSEN: A: J, that's Panel 4.

24 MR. BOIS: Q: Thank you. Now, at page 9 of your direct
25 evidence, Ms. Hemmingsen, you mention that senior
26 management had asked whether there were -- this is at

1 lines 12 to 14, whether there were other non-price
2 factors to be considered as part of the analysis.

3 MS. HEMMINGSEN: A: Once again, I think that's better
4 asked of Panel 4.

5 MR. BOIS: Q: Panel 4? Okay. I tried to get it out
6 early on the table.

7 And I just thought maybe -- I guess
8 probably a lot of these will be Panel 4, but at lines
9 28 to 30 on page 10, you suggest that the Tier 1 bids
10 are no longer binding. Has B.C. Hydro made any
11 enquiries as to -- as a contingency exercise, if the
12 Commission denies this EPA here, has B.C. Hydro made
13 any enquiries with any of the Tier 2 bidders to find
14 out whether they'd be willing to commit to their
15 tenders?

16 MS. HEMMINGSEN: A: B.C. Hydro hasn't made enquiries,
17 but the bidders, I understand, have put information
18 forward that suggests they're willing to hold those
19 bids. I understand both Epcor and Green Island have
20 done that, in various letters.

21 MR. BOIS: Q: So if the Commission were to deny the
22 EPA, what steps has B.C. Hydro taken to backstop
23 itself and under its commitment --

24 MS. HEMMINGSEN: A: Sorry, can I correct that? It's --
25 my understanding is, Calpine and Green Island have put
26 that forward in letters.

1 MR. BOIS: Q: Okay. Thank you. I'm not going to go
2 into them, I just wanted to know if you had done any
3 due diligence with respect to a backstop.

4 MS. HEMMINGSEN: A: Yeah. I mean, we've assumed that
5 the price that they bid in to the CFT is -- that's the
6 values that are included in the cost-effectiveness
7 analysis.

8 MR. BOIS: Q: But you also comment that you think that
9 those bids, those prices, are no longer binding.

10 MS. HEMMINGSEN: A: In accordance with the terms of the
11 CFT, the bidder is released from that binding
12 obligation, yes.

13 MR. BOIS: Q: Right. But from a contingency planning
14 perspective, then, from what I understand you to be
15 saying, you haven't really done anything.

16 MS. HEMMINGSEN: A: No, because the contingency plans
17 were to look at options that would be available to us,
18 and our intent was to proceed through this hearing,
19 and get a decision on the CFT option that we put
20 forward prior to acting on the contingency plans,
21 which seems to be an appropriate course of action
22 given that we got a cost-effective -- our position is,
23 we have a cost-effective outcome of the CFT process.
24 So I'm not quite sure why we would spend time firming
25 up other options until we know we need to access those
26 other options.

1 MR. SOULSBY: A: In addition to that, the course of
2 action that we might take arising from a negative
3 decision from this proceeding would in part depend on
4 some of the reasons for that decision, whether they
5 were related to cost-effectiveness or to reliability.

6 **Proceeding Time 9:15 a.m. T14**

7 MR. BOIS: Q: Right. But, nevertheless, you're here
8 saying that there's a time crunch. You've been saying
9 that the time crunch requires expedited processes.
10 You're saying that we don't have time to fool around
11 any longer with other things. I'm just surprised that
12 you're here saying, "We'll wait and see what happens,"
13 and you're not planning for a contingency.

14 MS. HEMMINGSEN: A: Well, we're not waiting to see what
15 happens. We have a cost-effective solution that
16 delivers reliable power by the time that it's
17 required. That's what we're putting forward. In the
18 event that the Commission determines otherwise, as Mr.
19 Soulsby outlined, we'd have to understand the reasons
20 and what further direction they were giving us before
21 we proceeded with those options.

22 MR. BOIS: Q: So yesterday there was a comment with
23 respect to the Commission rendering a decision on
24 February 17th without reasons. So as I understand it
25 now, reasons with that decision would be important to
26 you, especially if it was a denial.

1 MR. SOULSBY: A: Yes, that's correct.

2 MS. HEMMINGSEN: A: Mm-hmm.

3 MR. BOIS: Q: So the comments that you make at line 35
4 to 40 of your direct evidence then, with respect to
5 all of the editorializing, I'll call it, that you
6 characterized the implications of a denial, you really
7 don't know if those things are going to happen then,
8 do you?

9 MS. HEMMINGSEN: A: Well, I have talked to a number of
10 our IPP suppliers, and that reflects their sentiments
11 in terms of future procurement processes and what
12 might be the implications in the face of denial of a
13 competitively determined cost-effective outcome.

14 MR. BOIS: Q: Well, if the Commission denies your EPA,
15 then wouldn't you suggest that your view that it's a
16 competitively effective or cost-effective outcome
17 would be wrong?

18 MS. HEMMINGSEN: A: Well, I guess what we're doing here
19 is we're looking at binding firm bids against various
20 planning options. So I'd have to understand on the
21 basis that that decision was made. But my position
22 and my testimony here says that I would have a concern
23 about that outcome.

24 MR. BOIS: Q: I'm sure you would. The other aspect of
25 it is, though, wouldn't a denial just simply indicate
26 that your view of the world as to what's cost-

1 effective or what you can do, even going back to the
2 VIGP and the cost comparison differences between what
3 you had proposed the cost of the plant being and what
4 Duke Point's costs are, wouldn't a denial suggest that
5 you need to sort of re-evaluate your view of the world
6 and what's cost-effective?

7 MS. HEMMINGSEN: A: We ran a Call for Tender process
8 which was subscribed and participated in by many
9 parties, and it produced an outcome that was cost-
10 effective relative to what we had put forward. And
11 the evidence that we will put forward in Panel 4 shows
12 it's cost-effective relative to the other outcomes.
13 So I would be concerned, as I've outlined here, about
14 the statement that made to the market about
15 competitive processes and the willingness to accept
16 the results of those competitive processes.

17 And as I've testified in here, it suggests
18 that B.C. Hydro would stand to be exposed to higher-
19 cost outcomes because proponents would have to
20 possibly increase their price to reflect the risk that
21 they were accepting that those types of outcomes would
22 be overturned.

23 MR. BOIS: Q: Well, isn't it equally just as likely
24 that proponents would have to lower their risks to
25 show that it was in fact cost-effective -- to lower
26 their prices, I mean?

1 MS. HEMMINGSEN: A: I'm not sure --

2 MR. BOIS: Q: Well, you're saying that they'd have to
3 increase their prices to account for regulatory risk.
4 Wouldn't a similar sentiment just as equally be they
5 would have to lower their prices to ensure that they
6 escape regulatory risk?

7 MS. HEMMINGSEN: A: Because I'm a believer in markets
8 and competition, and I think we saw that bear out in
9 this process that in a Call for Tender people compete.

10 MR. BOIS: Q: Oh, I'm sure that's true, but we only
11 have your evaluations for what the competitive process
12 was. And I don't know if that's a QEM question, Mr.
13 Chairman, or not.

14 THE CHAIRPERSON: No, that's not a mechanics question.
15 Go ahead.

16 MR. BOIS: Q: Thank you. So we only have your
17 evaluation of that process to determine exactly how
18 competitive it was.

19 MS. HEMMINGSEN: A: Well, I think you have the
20 testimony and evidence of the independent reviewers
21 who oversaw every aspect of that process and produced
22 a series of reports, so you can put that question to
23 the independent reviewers. And also the Commission
24 Panel has received in confidence the results of that
25 entire process for all the bids that we received.

26 **Proceeding Time 9:20 a.m. T15**

1 MR. BOIS: Q: Now, perhaps I missed it, and it's quite
2 likely, but I recall the VIGP decision requiring that
3 the independent reviewer report to one of the
4 Commissioners. That wasn't the case. Could you tell
5 me why B.C. Hydro elected not to do that?

6 MS. HEMMINGSEN: A: I believe there's an IR that speaks
7 to that rationale.

8 MR. BOIS: Q: There could be. I thought there might be
9 but I might have missed it. If you could draw me to
10 the reference that would be great.

11 MS. HEMMINGSEN: A: And I think that Panel 3 could
12 speak to the specifics of that.

13 MR. SANDERSON: I'll [inaudible] in connection with one
14 of the IR responses that deals directly with that.

15 MR. BOIS: Okay, thank you.

16 MR. BOIS: Q: Now, yesterday there was some discussion
17 with Mr. Wallace about the CFT and the changing term
18 from 10 years to 25 years with the automatic exclusive
19 renewal clause -- addition of another 10 years. So
20 while we might argue about semantics, I'm going to
21 call it a 35-year project, because effectively it was
22 at your discretion.

23 Now, yesterday --

24 MS. HEMMINGSEN: A: I'm not sure I agree with that
25 characterization. It's a 25-year contract with an
26 option to renew.

1 MR. BOIS: Q: Okay, well, we can agree to disagree.
2 Yesterday you indicated that the CFT was driven by the
3 shortfall -- to meet the shortfall of capacity in
4 2007-2008. Now --
5 MS. HEMMINGSEN: A: Is that a question?
6 MR. BOIS: Q: No no. No no. I'm just trying to
7 refresh your memory and I just want to make sure that
8 you and I are on the same page.
9 Now, I'm going to refer you to the JIESC
10 spreadsheets that they produced yesterday and I don't
11 know the exhibit numbers, and if Mr. Fulton could help
12 me, that would be wonderful.
13 MR. FULTON: The spreadsheets, Mr. Chairman, are C19-17,
14 the graph is C19-18.
15 MR. BOIS: Thank you.
16 MR. BOIS: Q: I'm just going to refer to C19-17. And
17 I'm referring to the spreadsheet that starts with line
18 C363, so I think it's the third or fourth one in the
19 pile.
20 MR. SOULSBY: A: It's just that in respect of the
21 Chairman's remarks in the beginning, these are related
22 to the QEM so --.
23 MR. BOIS: Q: Are they?
24 MR. SOULSBY: A: Yes.
25 MS. HEMMINGSEN: A: Yes.
26 MR. BOIS: Q: All right, I just want to -- okay, my

1 question is just really to confirm that this
2 spreadsheet shows that the plant will be running for
3 one day in November -- December 2007. Really, that's
4 all I'm asking.

5 THE CHAIRPERSON: Please answer the question.

6 MS. HEMMINGSEN: A: This spreadsheet shows on an
7 economic basis that that plant would be running, and
8 you'll recall we discussed yesterday that the plant
9 was required for reliability reasons as well.

10 MR. BOIS: Q: Sure.

11 MS. HEMMINGSEN: A: So it's available to meet the
12 reliability requirement on Vancouver Island. On an
13 economic dispatch model we haven't shown the value of
14 the plant in terms of contributing to reliability.

15 MR. BOIS: Q: Okay, but you'd agree with me that -- and
16 Mr. Chairman, I misspoke, it's 2007-2008 winters.

17 You'd agree with me that economically aside
18 from the reliability aspect of the plant, you
19 anticipate only operating this plant on an economic
20 basis one day of those months?

21 MS. HEMMINGSEN: A: For that one year, and as you can
22 see the balance of the year it operates at a much
23 higher volume and yesterday we outlined the reasons
24 behind that. It's multi-factors that contribute to
25 the dispatch. It depends on the gas/electricity price
26 relationship.

1 MR. SOULSBY: A: I'd just like to add to Ms.
2 Hemmingsen's comments, unless the proceeding not be
3 mislead. The one day you refer to is actually driven
4 by a specific constraint in the model that requires a
5 minimum dispatch of 3 percent in any monthly period.
6 And that particular constraint was put in as a gaming
7 provision. So it's not being economically dispatched
8 for that period of time.

9 MR. BOIS: Q: But you'd still agree that it's really
10 only planned to operate one day a month through those
11 winter months?

12 MS. HEMMINGSEN: A: No, I think in 2010 it shows in
13 November -- am I reading it right? 102,000 hours.

14 MR. BOIS: Q: Well, I wasn't extending my question out
15 to 2010. I only limited my question to 2007-2008, and
16 I think that's all the Chair asked you to answer. So
17 unless I'm overstepping my bounds, would you just
18 answer my question about 2007-2008?

19 MS. HEMMINGSEN: A: That's what is shown in this table.

20 MR. BOIS: Q: Thank you. Now, after that, the
21 transmission line potentially is available. Is that
22 correct?

23 MS. HEMMINGSEN: A: Potentially.

24 **Proceeding Time 9:25 a.m. T16**

25 MR. BOIS: Q: Okay. Now, Mr. Eckert, you mentioned
26 yesterday that the risk of non-supply of the power is

1 borne by ratepayers, and that the EPA provides
2 measures by which B.C. Hydro can mitigate those risks,
3 up to and including termination. Is that -- do you
4 recall saying that?

5 MR. ECKERT: A: Could you repeat that quote?

6 MR. BOIS: Q: Well, in a dialogue between Mr. Wallace
7 and yourself about the risk of non-supply, I think Mr.
8 Wallace was making the point that the risk is borne by
9 ratepayers, and you mentioned that you -- I guess to
10 offset the risk, you said that there were mitigative
11 measures in the agreement up to and including
12 termination.

13 MR. ECKERT: A: If the plant were not available, there
14 are mitigation rights in the contract for B.C. Hydro.

15 MR. BOIS: Q: So if the plant weren't available, how
16 does that solve your problem?

17 MR. ECKERT: A: Well, the mitigation -- well, what
18 we've structured is a contract which creates some
19 significant economic incentives for the seller to make
20 the plant available, to ensure that the plant is
21 available. If they fail to meet certain availability
22 requirements, then that gives rise to a termination
23 right, and if we're entitled to terminate the
24 contract, we have a couple of alternatives at hand.
25 One is that we could step in and actually operate the
26 facility ourselves, if we felt that that was in our

1 best interests. So we do have a series of protections
2 in that event.

3 MR. BOIS: Q: So, would that be like B.C. Hydro taking
4 over VIG -- basically doing the VIGP thing?

5 MR. ECKERT: A: No, B.C. Hydro would step in, it would
6 not take ownership of the facility, it would step in
7 and act as agent for the seller until such time as the
8 seller could assume responsibility again and cure
9 whatever problems they were having that were
10 preventing them from operating the plant in the first
11 place.

12 MR. BOIS: Q: So if those problems were so significant
13 that the seller declared bankruptcy, wouldn't you
14 effectively not be an agent, you'd be the owner?

15 MR. ECKERT: A: Well, we -- we don't have priority over
16 the lender. If the problems were so significant that
17 the seller were to go bankrupt, as part of the
18 requirement to pledge the EPA to a lender, the lender
19 has to sign a lender consent, and that lender consent
20 says that if the lender steps in they have to assume
21 the contract as if they were the original signator.
22 Okay?

23 In the event that they did not step in,
24 then we would have available to us the full capacity
25 charge to offset any expenses we would incur in
26 operating the facility. So that would give us an

1 additional \$36 million a year that we could call on.
2 If you assume that the operating charge -- or, I'm
3 sorry, the O&M charge would offset the direct
4 operating cost for the facility.

5 MR. BOIS: Q: And that 36 million would be available
6 for the full -- if this default happened in the first
7 year, you'd effectively have that capacity charge for
8 the full 25 years.

9 MR. ECKERT: A: Well, until -- yeah. Until such time
10 as the lender chose to step in, in which case the
11 lender would be bound by the EPA. In addition to
12 having the full capacity charge available to us to
13 offset our expenses, we'd also have the security that
14 the seller has posted, which could provide another \$30
15 million. If that were to happen, for example, in the
16 first year that would be a \$30 million amount that we
17 would have available to us as well.

18 MR. BOIS: Q: Well, that gives you lots of cash, but it
19 still doesn't answer the reliability problems.

20 MR. ECKERT: A: Well, it gives you cash to fix some of
21 the problems. The premise of your question was that
22 there may be events that created an economic condition
23 for the seller not to be able to operate the plant,
24 and I'm just suggesting that what we've got available
25 to us is the full capital charge, which would include
26 the equity service and the debt service.

1 MR. BOIS: Q: Actually, I think my question just really
2 was focused on what would happen if they just didn't
3 perform, and you had to use your mitigative measures.
4 I wasn't really focusing too much on economics. But I
5 think we've answered the question, thank you.

6 MR. ECKERT: A: Okay.

7 MR. BOIS: Q: Mr. O'Riley, yesterday you mentioned that
8 you would consider -- or that B.C. Hydro would
9 consider dispatching the plant based on B.C. Hydro's
10 value of the energy. Can you expand for me, or
11 describe for me, the value that this would have? I
12 mean, if it's not the market value, what value is it?

13 MR. O'RILEY: A: B.C. Hydro, in the optimization of its
14 system and reservoirs, calculates a longer-term value
15 of energy. It's typically a two- or three-year value
16 of energy, and it represents B.C. Hydro's opportunity
17 cost for dispatching the hydro generation. So you can
18 generate today from the hydro, or you can conserve
19 that water, buy power on the market or from thermal
20 resource, and save that water for future, a future
21 time period.

22 So we use that signal, that energy value as
23 a signal to make the decision whether we buy power
24 from the market or run our thermal generators, whether
25 they're Burrard or Island co-gen or, assuming this
26 project -- or contract receives approval, we would

2 MR. BOIS: Q: But, in low load, low water periods,
3 doesn't banking on the water supply cause -- raise
4 potential risks? I mean, if you don't have the water
5 supply, why would you say it's stored?

7 MR. O'RILEY: A: Well, it certainly does, and our
8 calculation of the water value or the energy value
9 takes into account future market prices for gas and
10 electricity, it takes into account variability around
11 those prices, and it takes into account variability on
12 the in-flows in the Hydro. So it's quite a complex
13 calculation that takes into account the risk in the
14 decision-making.

17 MR. O'RILEY: A: We've certainly talked a lot about
18 this process in the Heritage Contract process, in the
19 Heritage Contract hearing. We've met with Commission
20 Staff at various times and gone through the process we
21 use to optimize our hydro reservoirs.

25 MR. O'RILEY: A: The values. No, we wouldn't typically
26 release the values because they are commercially

1 sensitive. I mean, they would be telling competitors
2 the price at which we're willing to buy and sell
3 electricity.

4 MR. BOIS: Q: So then how could anyone other than B.C.
5 Hydro determine that your cost-effectiveness study,
6 given the values that you attach to dispatching, are
7 reasonable?

8 MR. O'RILEY: A: Well, we've explained, as I said,
9 we've explained this process by which we optimize the
10 reservoirs in numerous forms, and again I think we
11 explained it in the revenue requirements process. I
12 mean, you have that concern today. I mean, how do you
13 know that we're not doing something silly with the
14 dispatch of the reservoirs? You don't, so you have to
15 trust the regulatory process that we have and the
16 integrity of the company to do what we say we're
17 doing.

18 MR. BOIS: Q: Well, I'm not questioning the integrity
19 of B.C. Hydro and I don't want to be on the record of
20 doing that. But I am a little bit concerned that B.C.
21 Hydro has now [sic] once come before this Commission
22 and stakeholders to say VIGP was the most cost-
23 effective solution. That wasn't accepted. We're now
24 here talking about an EPA agreement with a number of
25 stakeholders saying, "We don't think this is the right
26 solution," and you're saying, "Trust us."

1 MR. O'RILEY: A: Well --

2 MR. SANDERSON: That's a complete mischaracterization of
3 what we've just heard, and --

4 MR. BOIS: Is it?

5 MS. HEMMINGSEN: A: Yes.

6 MR. SANDERSON: Absolutely. There's three or four bases
7 on which we've wasted, with respect, the last ten
8 minutes. One is we're completely into cost-
9 effectiveness.

10 MS. HEMMINGSEN: A: Yes.

11 MR. SANDERSON: The only reason I've continued it is I
12 was hoping maybe we'd get rid of it, because we're
13 also into stuff that was just spent -- and I
14 appreciate Mr. Bois wasn't there, but Mr. O'Riley is
15 absolutely right. This is what the Heritage Contract
16 hearing was about. And if Mr. Bois wants to learn
17 more about this, I suggest he go read the transcripts
18 of that and the decision. It is on the public record.

19 The reasons why the B.C. Hydro calculation
20 to value power isn't made public is also, I think,
21 probably clear from that record. It's clearly in
22 everybody's interest it not be made public for the
23 competitive reasons that Mr. O'Riley says, and all of
24 that was accepted by the Commission in its
25 recommendations to Cabinet out of that decision.

26 So maybe we start there, and if we can take

1 it up, if Mr. Bois isn't satisfied having read that,
2 he can take up the rest of it with Panel 4.

3 MR. BOIS: I'll move on. Thank you, Mr. Chairman.

4 MR. BOIS: Q: Mr. Simpson, you indicated yesterday that
5 Terasen and B.C. Hydro had not yet signed a gas
6 transportation agreement. Can you give the Commission
7 any comfort as to a timeline when you're going to do
8 that?

9 MR. SIMPSON: A: I think we've indicated that we would
10 expect to have some sort of an agreement in place by
11 November of 2005.

12 MR. BOIS: Q: And what would happen if you don't?

13 MR. SIMPSON: A: Well, I don't think that's a
14 reasonable outcome. I think there is a very good
15 likelihood that we would have an agreement in place by
16 November 2005. If we didn't, I would assume that
17 initially we may have to accept interruptible service
18 for Duke Point.

19 MR. BOIS: Q: So how does that factor into the
20 commitments and obligations that you're imposing on
21 Duke Point with respect to operational reliability if
22 you can't supply the gas?

23 MR. SIMPSON: A: I think that's more a contract issue.
24 I'm sorry, could you --

25 MR. BOIS: Q: Well, maybe it's a two-pronged question.
26 If you can't supply the gas to Duke Point because you

1 don't have a B.C. -- a Terasen Gas contract, how do
2 you expect Duke Point to meet its performance
3 commitments to you?

4 MR. SIMPSON: A: It would not be failing to meet its
5 performance requirements. If we were unable to supply
6 the gas to the plant, they would not be in violation
7 of the agreement.

8 **Proceeding Time 9:35 a.m. T18**

9 MR. BOIS: Q: They wouldn't. But would you agree with
10 me that you're not being able to supply the gas on a
11 reliable basis, either through the lack of a firm
12 agreement or even if you had a transportation
13 agreement, produces uncertainty with respect to the
14 reliability of the Duke Point Plant and it's
15 operation?

16 MS. HEMMINGSEN: A: I guess it could, but the evidence
17 and the response to the information requests on that
18 issue established that we do believe that the
19 necessary supply arrangements can be in place with
20 Terasen Gas, and we have a number of other options to
21 pursue in the event that they can't. So we've outlined
22 that in numerous responses to IRs and the latest one
23 being what we filed with the McClellan response to the
24 second round or IRs 2.4.1.

25 MR. BOIS: Q: I haven't seen those responses.

26 MR. SANDERSON: Ms. Hemmingsen, those haven't been filed

1 with the panel and Mr. Bois doesn't have those. So
2 maybe you can provide him with the information that's
3 in that particular response.

4 MS. HEMMINGSEN: A: But there's a number of other IRs
5 that perhaps we could locate that outline the various
6 options and arrangements that we can access.

7 MR. BOIS: Q: Well, I wasn't really going to ask you to
8 go through in detail the options, I just wanted to
9 know and get your commitment -- or your confirmation
10 that the lack of a gas supply agreement -- or gas
11 transportation agreement puts Duke Point Power plant
12 and it's reliability into a realm of uncertainty.

13 MS. HEMMINGSEN: A: Well, I guess our assessment is
14 that uncertainty isn't very high and perhaps Mr.
15 Simpson can speak to the reasons for that.

16 MR. SIMPSON: A: Okay, I think the negotiations so far
17 have been focusing on attempting to get a long-term
18 gas transportation agreement and I think there are --
19 if you look at the record that's in the LNG
20 proceeding, you'll see the reasons why we have some
21 concerns about committing to a long-term agreement.

22 I think we see as a viable option for Hydro
23 is to enter into some sort of a short-term arrangement
24 with Terasen which may make it difficult for them to
25 justify proceeding with their proposed LNG expansion,
26 but it may be possible for them to put in a

1 compression expansion on their system which could
2 provide the necessary requirements for Duke Point by
3 the winter of 2007. And so we see that as a viable
4 alternative to a long-term contract with them
5 involving their LNG expansion.

6 So we don't think there's a reasonable
7 likelihood that we won't have any agreement at all
8 with Terasen that would jeopardize the ability to get
9 gas to Duke Point by 2007.

10 MR. BOIS: Q: Well, you could have an interruptible
11 agreement, is that what you're saying?

12 MR. SIMPSON: A: That is -- I think that's a very
13 unlikely outcome. I think if we can have a short-term
14 arrangement in place with them by November 2007, then
15 there should be a sufficient basis for them to proceed
16 with compression expansion on their system to provide
17 the requirements for Duke Point.

18 MR. BOIS: Q: Okay.

19 MS. HEMMINGSEN: A: I think if you look at BCUC IR
20 1.44.7 it outlines the various options that we have.

21 MR. BOIS: Q: I'm sorry, could you give me that
22 reference again, please?

23 MS. HEMMINGSEN: A: 1.44.7.

24 MR. BOIS: Q: Thank you.

25 MS. HEMMINGSEN: A: I'd just like to get it.

26 MR. BOIS: Q: Now, I just have a couple of technical

1 questions and I'm not sure if this is the right panel,
2 but in terms of -- I'm not even sure if this really
3 goes to the QEM model, Mr. Chairman, but they deal
4 with the decision to dispatch or not. And it's not
5 really the economic analysis so much as other factors.
6 So I'm wondering whether or not -- and for example, my
7 question would be -- my questions really are: Does
8 the dispatching model consider whether the plant is in
9 a cold start-up mode or a hot start-up mode? And
10 what would happen if one of the 500 kV lines was not
11 available and if the plant had to be started up? What
12 would the timing be?

13 THE CHAIRPERSON: Those are questions that, if you had
14 reviewed the model in Appendix H, that you would get
15 the answer to, I think other than with respect to the
16 implications for the 500 kV line. If that's not
17 correct, then please correct me.

18 MR. SOULSBY: A: That's correct.

19 **Proceeding Time 9:40 a.m. T19**

20 THE CHAIRPERSON: All right, so only ask your question
21 with respect to the 500 kV line.

22 MR. BOIS: Thank you, Mr. Chairman.

23 MR. BOIS: Q: If one of the 500 kV lines tripped out, I
24 understand that the other line goes into intermediate
25 overload and that it can handle that overload for a
26 short period of time. Do you have any idea what that

1 timeline is?

2 MR. SOULSBY: A: Subject to check, I believe the
3 overload rating is for one hour.

4 MR. BOIS: Q: One hour. And how long would it take
5 before other line capacity could be used or available
6 or would be needed? So maybe my -- I'll just leave it
7 at the one hour. Thank you, that's okay. I don't
8 understand my own question.

9 MS. HEMMINGSEN: A: I'd just like to correct the
10 record. It's BCUC IR 2.47.9 that outlines the
11 arrangements that B.C. Hydro would seek to meet the
12 gas transportation requirements to service Duke Point.
13 It outlines that we would investigate a number of
14 options, and we're quite confident that we would have
15 that gas service available.

16 MR. BOIS: Q: Thank you. Now in assessing the project
17 and Duke Point and other projects in the NPV analysis
18 and the QEM model, did B.C. Hydro consider what would
19 happen if the plant were down when one of these 500 kV
20 lines trips?

21 MR. SOULSBY: A: I think we need to be clear that the
22 QEM model itself doesn't consider the circumstances in
23 which, from a reliability perspective as we covered
24 yesterday, the plant would be dispatched. The QEM
25 model is an economic dispatch model, with the
26 exception of that 3 percent figure that's the minimum

1 monthly dispatch, that I talked about earlier.

2 MR. BOIS: Q: All right, then let's look at it from a
3 reliability perspective. Did you consider that
4 scenario?

5 MR. SOULSBY: A: That's an operational question and I'm
6 not prepared to answer that.

7 MR. BOIS: Q: Is anybody on this panel prepared to
8 answer that?

9 MS. HEMMINGSEN: A: What's the question again?

10 MR. BOIS: Q: If one of 500 kV lines tripped and Duke
11 Point is not operating, did you consider that?

12 MR. ECKERT: A: Well, I can tell you what -- it depends
13 on -- I can tell you what the implications are of the
14 startup times.

15 MR. BOIS: Q: Well, before you do that, can you tell me
16 whether you considered it, and then you can give me
17 your opinion as to what the outcome is?

18 MS. HEMMINGSEN: A: Well, what we considered is Duke
19 Point being available on a 97 percent basis for
20 reliability purposes. That's industry standard
21 reliability criteria. So then there's a number of
22 circumstances where it wouldn't be available, which as
23 Mr. Soulsby has outlined are operational reliability
24 considerations, and there you avail yourself of
25 operational contingency measures. And that's why we
26 need to plan to have not just in time and not just

1 enough.

2 MR. BOIS: Q: So does that mean you considered it or
3 not?

4 MS. HEMMINGSEN: A: Well, it's considered in how we
5 define reliability requirements and what we make
6 available as operating contingencies.

7 MR. BOIS: Q: So in that consideration of your planning
8 and criteria, what was your response if this scenario
9 happened?

10 MS. HEMMINGSEN: A: Well, it's part of how you define
11 reliability.

12 MR. BOIS: Q: Well --

13 MS. HEMMINGSEN: A: It's an assumption going into the
14 supply/demand balance, and what you've determined is
15 the capacity deficit that you need to meet, and what
16 contingent options you need to maintain and access for
17 operational contingencies.

18 MR. SOULSBY: A: So I think the answer to your question
19 is that the contingencies that would be invoked are
20 the operating orders that B.C. Hydro has in place to
21 ensure that all of its customers remain to be --
22 remain -- continue to have service in the event of an
23 N minus 1 contingency.

24 MS. HEMMINGSEN: A: Thank you. And you'd agree that
25 the N minus 1 criteria can be satisfied by the Norske
26 proposal, based on your knowledge of it?

1 MR. SOULSBY: A: No, I wouldn't agree with that
2 statement. The N minus 1 planning criteria are
3 criteria that are applied not to specific projects *per*
4 *se*, but that are applied to the system as a whole as
5 it's being operated.

6 MR. BOIS: Q: Right, but if the Norske proposal was
7 part of your portfolio of supply options, and you had
8 an N minus 1 criteria situation, you'd still be able
9 to comply, wouldn't you?

10 MS. HEMMINGSEN: A: My understanding of the Norske
11 proposal is that BCTC has agreed to look at it and
12 test it as a pilot option and consider whether it
13 meets their criteria.

14 MR. BOIS: Q: So why hasn't B.C. Hydro considered doing
15 the same thing?

16 MS. HEMMINGSEN: A: Once again, that goes back to my
17 earlier testimony. We are here because we have a
18 cost-effective, reliable, date-certain outcome, and
19 until we get a decision on that we don't feel that
20 it's appropriate to proceed with other contingency
21 options.

22 MR. BOIS: Q: Even though you have all these great
23 concerns about reliability? You don't see it as a
24 backup plan?

25 MS. HEMMINGSEN: A: This project meets them.

26 MR. BOIS: Q: Okay, thank you.

1 I just have four more questions, and
2 hopefully your answers will be short enough that I can
3 get out of the -- step down.

4 **Proceeding Time 9:45 a.m. T20**

5 If there had been a portfolio analysis in
6 your CFT process that had 150 megawatts that was
7 acceptable, given that you now know that your
8 shortfall was not 106 -- or is not 116 megawatts, as
9 set out by the Commission in the VIGP decision, but is
10 now some 162 more megawatts, what would you have done?

11 MS. HEMMINGSEN: A: Well, I guess there's a number of
12 aspects. One is, the CFT process requires us to take
13 the least-cost option over 150 megawatts. So we would
14 have taken that option, and we would have looked at
15 other options to bridge the gap. That wasn't the
16 outcome of the CFT process, so that we didn't have to
17 explore that possibility.

18 MR. BOIS: Q: So knowing that there was this higher
19 shortfall didn't influence any of your discussion or
20 your analysis in the CFT process?

21 MS. HEMMINGSEN: A: No, because it was a transparent,
22 pre-prescribed rules and procedures according to a
23 binding Call For Tender.

24 MR. BOIS: Q: But it didn't affect your assumptions
25 that went into your analysis or your models?

26 MS. HEMMINGSEN: A: It couldn't affect the assumptions

1 in the CFT because we had to live up to what the CFT
2 terms and conditions were.

3 MR. BOIS: Q: Okay. Would you also agree with the
4 assumption that, had B.C. Hydro indicated during the
5 CFT process that its shortfall was not the 116 as
6 determined by the Commission, but rather 262
7 megawatts, that you could likely have gotten a
8 completely different array of suites of projects?

9 MS. HEMMINGSEN: A: Can you repeat the question?

10 MR. BOIS: Q: Well, there were a number of addenda
11 through the process. If B.C. Hydro had issued an
12 addendum that said "We know the Commission said there
13 was only 115, but our forecasts are now saying there's
14 262 megawatts of shortfall, therefore we're going to
15 amend the base from 150 to 260," do you think that
16 that would have resulted in a completely different
17 array of projects?

18 MS. HEMMINGSEN: A: Well, I guess it would have
19 favoured a higher volume portfolio, because the
20 minimum would have been set at a higher level.

21 MR. BOIS: Q: But it would have also done a lot of
22 other things, wouldn't it? Wouldn't it have allowed a
23 lot of people to do a lot of different, other creative
24 things in terms of making supply?

25 MS. HEMMINGSEN: A: No, because the bidders in November
26 had to outline what projects they were pursuing and

1 provide project-specific descriptions. It was a
2 staged process throughout the 12- or 14-month period.
3 MR. BOIS: Q: But as I understand what has been filed,
4 you knew that you needed 262 in November.

5 MS. HEMMINGSEN: A: No.

6 MR. BOIS: Q: No?

7 MS. HEMMINGSEN: A: No. In November, we filed -- and
8 I'll make sure we're talking about the same dates. In
9 November, 2003 we filed our load forecast, which
10 indicated a deficit of 180 megawatts. Based on the
11 Commission-directed volume for us to seek of a
12 difference of 30, we felt that we could proceed with
13 the 150 megawatt level.

14 In January, 2004 there was a number of peak
15 events on Vancouver Island which pointed to higher
16 load requirements. We had to evaluate those and
17 determine that they established a new basis for the
18 peak, and that work was completed in the spring.

19 MR. BOIS: Q: Thank you.

20 MS. HEMMINGSEN: A: And resulted in the load forecast
21 that we filed in November, 2004 indicating that the
22 deficit was 262 megawatts.

23 MR. BOIS: Q: Okay. Now, I want to just change topics
24 completely. What's the longest contract, power
25 contract or EPA that B.C. Hydro has right now?
26 Longest term.

1 MS. HEMMINGSEN: A: I don't know that off my -- top of
2 my head.

3 MR. BOIS: Q: Could you endeavour to find that out? I
4 don't think it would be too onerous.

5 MR. SOULSBY: A: Yes, we can do that.

6 **Information Request**

7 MR. BOIS: Q: Thank you. Now, just one last question.
8 Under today's scenario, and your operating
9 considerations with respect to Duke Point, and all of
10 your analysis, if you didn't have a contractual
11 obligation to run ICP, would you in fact simply shut
12 that plant off, given the economic considerations
13 today?

14 MR. O'RILEY: A: Well, I think that would depend on the
15 relative values of energy and gas in the market. I
16 don't think we would be running -- I don't think we
17 would shut it down.

18 MR. BOIS: Q: But again, that goes back to your
19 mysterious values, right?

20 MR. O'RILEY: A: Well, I object to that
21 characterization completely. So --

22 MS. HEMMINGSEN: A: Yeah.

23 MR. BOIS: Q: Okay, well -- it's your value, as opposed
24 to a market value.

25 MR. O'RILEY: A: It's the value of energy as we've
26 described several times.

1 MR. BOIS: Q: Okay. Those are all my questions, Mr.
2 Chairman, thank you.

3 **Proceeding Time 9:50 a.m. T21**

4 MR. FULTON: Green Island Energy, Mr. Weisberg.

5 MR. WEISBERG: Mr. Chairman, just a note on my cross-
6 examination. I have no questions on the mechanics of
7 the QEM model, only on it's application. As a bidder
8 Green Island was provided with a copy of the model.
9 Just a note.

10 As a sidebar before I begin cross-
11 examination, Mr. Keough has advised me that he was
12 unable to open the attachment in the e-mail I sent
13 yesterday, that being the letter that I requested the
14 Commission to review on the application before you. I
15 have 40 copies of that here. At your pleasure, I will
16 distribute them now or make them available at the
17 table.

18 THE CHAIRPERSON: Make them available now to the panel
19 and leave some on the table for everyone else.

20 MR. WEISBERG: And Mr. Keough has -- I have handed a
21 copy to Mr. Keough already.

22 THE HEARING OFFICER: C9-15.

23 (LETTER FROM WEISBERG LAW, F.J. WEISBERG, DATED
24 JANUARY 17, 2005, MARKED EXHIBIT C9-15)

25 MR. WEISBERG: And with that I will turn to my cross-
26 examination.

1 **CROSS-EXAMINATION BY MR. WEISBERG:**

2 MR. WEISBERG: Q: Good morning, panel. I would like to
3 begin my questions to you with a tree.

4 MS. HEMMINGSEN: A: A tree?

5 MR. WEISBERG: Q: It's not an ordinary tree. Yes, a
6 tree. It's a decision tree, and it's found in
7 Appendix D to report number 4 of the independent
8 reviewer. I have copies, not of the entire report but
9 simply of the appendix that I propose to look at.
10 I'll hand it up first for identification and then have
11 it marked as an exhibit.

12 Ms. Hemmingsen, as a chair of the panel,
13 can you just identify or confirm that that document
14 I've handed up is as described? Or you haven't seen
15 the one I've handed up.

16 MS. HEMMINGSEN: A: Yes. It looks similar to what we
17 filed in Appendix -- or what was filed in Appendix D.

18 MR. WEISBERG: Q: Okay. Mr. Chair, I'd request that
19 Appendix D to Report Number 4 of the independent
20 reviewer be marked as an exhibit, please.

21 THE HEARING OFFICER: C9-16.

22 MR. SANDERSON: Mr. Chairman, I don't want to (inaudible)
23 here, but I guess I'd like to discourage the habit,
24 that is this is an exhibit, it's already part of B-1,
25 Appendix D, page 21. I'm thankful to Mr. Weisberg
26 for giving us another copy to look at, but --

1 MR. WEISBERG: I would agree with Mr. Sanderson, it
2 makes things simpler and I apologize for my oversight
3 on that part.

4 MR. SANDERSON: Appendix K to Exhibit B-1.

5 THE CHAIRPERSON: Thank you, Mr. Sanderson.

6 MR. WEISBERG: Q: All right. So we are looking at a
7 decision flow chart. By my counting, this is subject
8 to check, but I think there are 40 boxes, about 45 or
9 more arrows and a number of yes/no, pass/fail
10 designations. So it appears to address almost every
11 contingency, is that the case?

12 MS. HEMMINGSEN: A: That was the intent to prescribe
13 the processes up front that each tender would be
14 subjected to.

15 **Proceeding Time 9:55 a.m. T22**

16 MR. WEISBERG: Q: When was this document prepared?

17 MS. HEMMINGSEN: A: I'm not sure what was the specific
18 date that it was prepared.

19 MR. WEISBERG: Q: I'd like you to provide your
20 undertaking to respond to that, please.

21 MR. SANDERSON: Well, on Panel 3 -- the witnesses that
22 will be responsible for all of this will appear as
23 part of Panel 3, so I'll just give them advance notice
24 that that date should be forthcoming, then.

25 MR. WEISBERG: Q: I do note that it is B.C. -- it's the
26 B.C. Hydro CFT decision flow chart, so it speaks to

1 decisions made by B.C. Hydro.

2 Who was it prepared by? Was it -- was that
3 the job of the IR, or was that something B.C. Hydro
4 does?

5 MS. HEMMINGSEN: A: This was prepared by B.C. Hydro at
6 the request of the IR, to specify the procedures that
7 would be followed in advance of receiving the tenders.
8 That was part of the commitment that we had to
9 transparency throughout the process.

10 MR. WEISBERG: Q: And as for the date of preparation,
11 are you giving me an undertaking, or referring that to
12 Panel 3?

13 MS. HEMMINGSEN: A: My understanding is Mr. Sanderson
14 has suggested that Panel 3 can answer that question.
15 I can --

16 MR. SANDERSON: Because it said PricewaterhouseCoopers on
17 the document, and because it's part of the independent
18 reviewer's report, I assumed that was the right place
19 for it. If I'm wrong, we'll do it through this panel.
20 But we'll find out at lunch.

21 MS. HEMMINGSEN: A: Either of us can answer.

22 MR. WEISBERG: Q: I'd prefer not to have to ask the
23 question of Panel 3 if you can -- if I may leave it as
24 an undertaking, I will do that.

25 MS. HEMMINGSEN: A: Okay. Yes, I will do that.

26 **Information Request**

1 MR. WEISBERG: Q: Thank you. On this flow chart, where
2 on the flow chart does B.C. Hydro provide for a
3 process to determine when it's appropriate to move
4 from consideration of the first tier to consideration
5 of the second tier?

6 MS. HEMMINGSEN: A: The consideration of the first tier
7 and the second tier is based on the volume. So, the
8 portfolios needed to be assembled at 150 megawatts.
9 So if projects could not be assembled to that level,
10 they didn't make it in to a Tier 1 portfolio.

11 MR. WEISBERG: Q: I understand that, but that was not
12 my question. I'm wondering where on this detailed
13 decision flow chart does it provide for a process of
14 when it's appropriate to move from consideration of
15 the first tier to consideration of the second tier?

16 MS. HEMMINGSEN: A: That would be stemming out of the
17 recommendation to the PMO, and the PMO making the
18 final recommendation to the CFT steering committee.

19 MR. WEISBERG: Q: You will have to help me identify
20 these boxes, and step me through this. I see a box --

21 MS. HEMMINGSEN: A: We're actually at the bottom, so
22 they're not too hard to see.

23 MR. WEISBERG: Q: Oh. The big easy boxes at the
24 bottom.

25 MS. HEMMINGSEN: A: Right.

26 MR. WEISBERG: Q: "Recommendation", there's an arrow to

1 "PMO", there's an arrow to "CFT Steering Committee"?
2 MS. HEMMINGSEN: A: That's correct.
3 MR. WEISBERG: Q: And it would fit somewhere in there?
4 MS. HEMMINGSEN: A: Yes, so the process --
5 MR. WEISBERG: Q: That process?
6 MS. HEMMINGSEN: A: The process was that each and every
7 tender was reviewed for compliance and if it passed
8 the compliance, that it conformed with the tender
9 requirements in form, then it was re-assessed whether
10 it met the mandatory financial and technical criteria
11 in blinded committees. And if it passed both of those
12 then it was processed to the quantitative evaluation
13 model, where the price envelopes were opened, and they
14 were assembled into portfolios. And to the extent
15 that a particular project couldn't be included in a
16 minimum 150 megawatt portfolio, it did not -- it is
17 not included in a Tier 1 outcome.
18 Then the Tier 1 outcomes were assembled,
19 they were evaluated based on the least cost --
20 MR. WEISBERG: Q: Ms. Hemmingsen, I'll allow you to
21 continue if you must, but I don't believe you're
22 responding to the question that I'm concerned about,
23 and that I've asked twice now. I only want to know
24 about where on this decision flow chart it addresses
25 the process to be followed for moving from
26 consideration of the first tier to consideration of

1 the second tier. And I think your answer is, "It's to
2 be imputed by the five boxes at the bottom of the flow
3 chart." Is that a fair characterization?

4 **Proceeding Time 10:00 a.m. T23**

5 MS. HEMMINGSEN: A: Is your question at what point do
6 you reject a Tier 1 outcome and proceed with a Tier 2
7 outcome?

8 MR. WEISBERG: Q: My question is as put. I don't know
9 how to put it any other way. There's presumably a
10 process, or there should be a process for when it's
11 appropriate to move from consideration at Tier 1 to
12 Tier 2. And I want you to identify where on this
13 flowchart that's provided for.

14 MS. HEMMINGSEN: A: So if I understand your question
15 correctly, it would occur in the recommendation. So
16 if a Tier 1 portfolio was assembled, it would be
17 looked at as a least cost, and then an evaluation
18 would be made to the CFT Steering Committee whether it
19 was least cost. As you've heard from Ms. Van Ruyven,
20 there was a request for a cost-effectiveness analysis
21 pursuant to the privative clause of the CFT contract,
22 and an evaluation was made, results were presented,
23 and a decision was made by the Steering Committee.

24 MR. WEISBERG: Q: Okay, I have your answer.

25 Are all reports from the independent
26 reviewer and the written communications from the

1 independent reviewer, or from B.C. Hydro to the
2 independent reviewer, available on the B.C. Hydro
3 website?

4 MS. HEMMINGSEN: A: That's my understanding, but you
5 could confirm that with Panel 3.

6 MR. WEISBERG: Q: I'm going to leave that flowchart,
7 and I would like you though to stay, panel, with the
8 same report that Appendix D is found at the back of.
9 That's the October 29th Report No. 4, the independent
10 reviewer. And in that document I would like you to
11 turn up page 13 please.

12 MS. HEMMINGSEN: A: Did you say Appendix D?

13 MR. WEISBERG: Q: We were looking at Appendix D to
14 the --

15 MS. HEMMINGSEN: A: K, K.

16 MR. SANDERSON: It's Appendix K to Exhibit B-1. Within
17 Appendix K there are four tabs. The fourth tab is the
18 fourth independent reviewer's report. It has an
19 Appendix D which is where we were previously
20 referring.

21 MS. HEMMINGSEN: A: Thank you.

22 MR. WEISBERG: Thank you again, Mr. Sanderson, for your
23 assistance. That's helpful for the record.

24 MR. WEISBERG: Q: So I think we've identified the
25 document that we're looking at, hopefully.

26 MS. HEMMINGSEN: A: Thank you.

1 MR. WEISBERG: Q: And I want you to turn to page 13.
2 And at the top it says it's a table summarizing
3 determinations by B.C. Hydro. That's correct, is it?
4 MS. HEMMINGSEN: A: Yes.
5 MR. WEISBERG: Q: Okay. And I'm speculating here, but
6 I think based on what's understood about this process,
7 I'm not going far afield if I surmise that Tender F is
8 the tender submitted by Calpine. Can you confirm
9 that?
10 MS. HEMMINGSEN: A: No. We filed bidder information on
11 a confidential basis.
12 MR. WEISBERG: Q: That's fine. Can you tell me
13 anything in terms of the -- under Tender No. F where
14 it says: "Tender failed, tender security and
15 conformity review." I believe that was a single
16 review. Did that tender fail in more than one
17 respect?
18 MS. HEMMINGSEN: A: I'm not sure we agreed to reveal
19 the reasons why, the specific reasons why a tender
20 failed or didn't fail.
21 MR. WEISBERG: Q: I haven't asked for the specific
22 reasons why. I've asked for whether there was more
23 than one criteria that it failed.
24 MR. SANDERSON: It's pretty hard to see how we're not
25 going to slide down this slope at breakneck speed,
26 frankly. I mean, I don't know what Mr. Weisberg is up

1 to exactly, but it seems to me that if he's going to
2 ask a series of questions from which he later wants to
3 draw inferences about who or what any of the bids was,
4 we're doing on the record in small bits exactly what
5 we've already determined we're not going to do, which
6 is try and get at the confidential information with
7 respect to unsuccessful bids.

8 THE CHAIRPERSON: I do think, Mr. Weisberg, your
9 questions clearly indicate an intent to do exactly
10 that. When you ask them if Tender F was Calpine,
11 clearly you are after information that is
12 confidential, and you knew that.

13 **Proceeding Time 10:05 a.m. T24**

14 MR. WEISBERG: The problem, Mr. Chair, is that it's an
15 in-scope issue, in our understanding, in this
16 proceeding, to determine whether there were
17 requirements of the CFT that were unduly stringent,
18 and by that quality, disqualified otherwise-worthwhile
19 projects.

20 THE CHAIRMAN: And I've already said that what's
21 necessary -- and really to accomplish that is a
22 developer that's prepared to come forward and make the
23 case. You can't make the case on behalf of someone
24 else. I've already spoken to the Calpine letter. I
25 think you need to move on.

26 MR. WEISBERG: I will move on.

1 MR. WEISBERG: Q: Let's not move off the Appendix K, I
2 believe, but I want to move to a different section.
3 It is the March 11th, 2004 letter from the independent
4 reviewer, the "re:" line for that is "supplemental to
5 second report of the independent reviewer."

6 MS. HEMMINGSEN: A: Do you have a reference for that?

7 MR. SANDERSON: This one -- and this goes back to
8 something Mr. Weisberg raised earlier; he asked
9 earlier whether all of the correspondence between
10 Hydro and the independent reviewer were on the
11 Website. In fact they're all filed, and maybe this is
12 where this is from, I'm not sure of the March 11th one.
13 Panel 3's testimony -- the testimony of Mr. Hodgson,
14 attaches whatever wasn't in Appendix K.

15 Now, let me see if I can find the letter.
16 Just a sec. Yes.

17 So it appears in the testimony of Panel 3,
18 which is Exhibit B-35, at tab 3, and there's a number
19 of attachments to the evidence of Mr. Hodgson.
20 They're not numbered, but they all form part of
21 Schedule C, so -- and they're chronological under
22 Schedule C. The second one is the March 11th letter.

23 THE CHAIRMAN: Thank you. I have it.

24 MR. WEISBERG: Thank you once again, Mr. Sanderson, for
25 your help.

26 MR. WEISBERG: Q: Panel, I'm interested in -- the

1 witness doesn't have it.

2 MS. HEMMINGSEN: A: It's nice that you all have it, but
3 it might be useful if I did too.

4 MR. WEISBERG: Q: It would help my cross.

5 Ms. Hemmingsen, once you identify that
6 document, I'm looking at page three of the March 11th,
7 2004 supplemental to second report of the IR.

8 MS. HEMMINGSEN: A: Mm-hmm.

9 MR. WEISBERG: Q: And on page three, I'm looking at
10 discussion point number four, which is the final
11 paragraph on the page.

12 MS. HEMMINGSEN: A: Right.

13 MR. WEISBERG: Q: And I like to give credit where
14 credit is due, and Mayor David Lewis brought this to
15 my attention, I'd overlooked it myself. So I'd like
16 to acknowledge that. But I'll read in, and I'm
17 quoting:

18 "4. Second decision tier. Addendum 10
19 introduced a second decision tier to the
20 quantitative evaluation methodology where no
21 cost-effective portfolio is determined under
22 Step 5 of the quantitative evaluation
23 methodology. It is our view that this
24 additional decision step does not impact the
25 fairness or transparency of the evaluation
26 process and may be viewed as a constructive

1 approach in contrast with simply terminating
2 the CFT. However, B.C. Hydro will need to
3 clearly define and apply appropriate
4 processes to give effect to this second tier
5 of decision-making. Specifically, the IR
6 intends to review the decision rules for
7 moving from the first tier to the second
8 tier."

9 That letter, Ms. Hemmingsen, was addressed to you.

10 MS. HEMMINGSEN: A: That's correct. And I do recall
11 that letter. And --

12 MR. WEISBERG: Q: Were you responsible for clearly
13 defining appropriate processes to give effect to the
14 second tier of decision-making?

15 MS. HEMMINGSEN: A: I asked the team that was
16 responsible for doing that to define that, and they
17 made that definition in agreement with
18 PricewaterhouseCoopers, and I do believe there's an IR
19 that outlines what that criteria was, and it related
20 to a definition of competition, which there was two
21 elements. One is the number of bidders, and the
22 absence of collusion.

23 And we did review that decision rule with
24 PricewaterhouseCoopers and they were satisfied that
25 there was a critical mass of bidders that demonstrated
26 we had a competitive outcome and no evidence of

1 collusion.

2 **Proceeding Time 10:10 a.m. T25**

3 MR. WEISBERG: Q: Can you identify for me the IR
4 response that you just referred to?

5 MS. HEMMINGSEN: A: Not off the top of my head.

6 MR. WEISBERG: Q: I'm happy to take your undertaking.

7 MR. SANDERSON: We'll do that over the break.

8 MR. WEISBERG: Q: It's not efficient to do it now, but
9 if you would, thank you.

10 **Information Request**

11 MR. WEISBERG: Q: When was -- it's in an IR response
12 you've said, but when was the work actually completed
13 by B.C. Hydro in advance of this hearing?

14 MS. HEMMINGSEN: A: It was -- the work was completed
15 prior to the receipt of the tenders, so I can confirm
16 the specific date but I don't have it off the top of
17 my head.

18 MR. WEISBERG: Q: Okay, I'd like you to do that,
19 please. Thank you.

20 **Information Request**

21 MR. WEISBERG: Q: And the work, as we've described it,
22 is found in what form? Is there a document?

23 MS. HEMMINGSEN: A: I'd have to check what form.
24 Certainly the independent reviewer can speak to this
25 issue as well.

26 MR. SANDERSON: If I might suggest, Mr. Chairman, we're

1 close to the break. If Mr. Weisberg can move onto
2 another area then we can check what IR we are talking
3 about so we've all got that in front of us and it may
4 answer all of these questions, I don't know. I can't
5 recall the IR specifically enough to know whether it's
6 going to answer them all, but maybe we can do that
7 after the break.

8 THE CHAIRPERSON: In fact, instead of moving onto another
9 area, why don't we take the break now. We'll take
10 fifteen minutes.

11 **(PROCEEDINGS ADJOURNED AT 10:12 A.M.)**

12 **(PROCEEDINGS RESUMED AT 10:29 A.M.)** **T26**

13 THE CHAIRPERSON: Please be seated.

14 Are there --

15 MR. WEISBERG: Mr. Chair, when we broke, my understanding
16 was that B.C. Hydro was going to take the time in the
17 break to identify the IR that Ms. Hemmingsen
18 referenced.

19 MS. HEMMINGSEN: A: And I've taken the opportunity to
20 do that. It's not an IR but it is in the evidence,
21 and it's referenced in the CFT report that we provided
22 to the Commission, and that's on page 13 and it's line
23 21 to 24, and it states:

24 "These decision rules..."

25 It's talking about the tender evaluation and selection
26 and Tier 1 and Tier 2.

1 "These decision rules focused on bidder non-
2 collusion and the competitiveness of tenders
3 received. The QEC applied these decision
4 rules to determine that Tier 1 bids were
5 competitive and not collusive."

6 And then it says:

7 "Other aspects of the cost-effectiveness
8 tests were introduced in section 17
9 discussed in the next section."

10 We've also taken the opportunity to confirm
11 the date that that decision tree was produced, and
12 that was finalized and confirmed with the IR on August
13 12th prior to the receipt of the tenders. And also at
14 that August 12th meeting with the IR, we confirmed the
15 decision rules that are referenced on page 13, line 21
16 through 24.

17 **Proceeding Time 10:31 a.m. T27**

18 MR. WEISBERG: Q: The date of that CFT report was what?
19 Was in October?

20 MS. HEMMINGSEN: A: This was provided to the Commission
21 on November 19th.

22 MR. WEISBERG: Q: November 19th.

23 MS. HEMMINGSEN: A: Right.

24 MR. WEISBERG: Q: 2004.

25 MS. HEMMINGSEN: A: Right.

26 MR. WEISBERG: Q: And when did the independent reviewer

1 receive those decision rules for review?

2 MS. HEMMINGSEN: A: They would have received them prior
3 to this August 12th project management office meeting
4 upon which we agreed on those decision rules.

5 MR. WEISBERG: Q: Did you do so verbally? Because my
6 point is this: I looked on the B.C. Hydro website and
7 I looked through all the correspondence between the
8 independent reviewer and B.C. Hydro and I saw no
9 mention from B.C. Hydro or the independent reviewer of
10 these decision rules.

11 MS. HEMMINGSEN: A: Yes, a written record would be
12 provided by minutes to the project management office
13 meetings which were maintained, so that would be one
14 written record. You could also pursue the independent
15 reviewer for their confirmation that that was
16 discussed and agreed to at that August 12th meeting.

17 MR. WEISBERG: Q: Is that written record something that
18 you would undertake to produce?

19 MR. SANDERSON: If Mr. Weisberg is asking for a specific
20 minute on this question, by all means.

21 MR. WEISBERG: I'm prepared to accept as specific as
22 B.C. Hydro can make it. I think I've defined the
23 issue, I want only the minutes that referred to that.

24 MR. SANDERSON: We'll check the minutes for that.

25 MR. WEISBERG: Thank you.

26

Information Request

1 MR. WEISBERG: Q: Did the -- the IR then provided no
2 conclusions or recommendations regarding B.C. Hydro's
3 decision rules.

4 MS. HEMMINGSEN: A: They accepted them. That's what
5 the minute of that meeting would show.

6 MR. WEISBERG: Q: That's what the minute will say.

7 MS. HEMMINGSEN: A: Yes.

8 MR. WEISBERG: Q: Is there some reason that that's not
9 reflected in the IR's reports when the initial issue
10 and the indication that specifically -- and I'm
11 quoting "specifically the IR intends to review the
12 decision rules for moving from first Tier to second
13 Tier."

14 MS. HEMMINGSEN: A: Yeah, well, I guess they did that,
15 and if it was an outstanding item you would have seen
16 it in their final report. But once again, you can
17 pursue the independent reviewer on the reasons why --

18 **Proceeding Time 10:33 a.m. T28**

19 MR. WEISBERG: Q: Okay.

20 MS. HEMMINGSEN: A: -- they did or didn't include that
21 in the final report.

22 MR. WEISBERG: Q: I just find it odd that the issue is
23 flagged earlier on, but the conclusion is never
24 addressed.

25 MS. HEMMINGSEN: A: As I've outlined, it was addressed,
26 and it was addressed on August 12th.

1 MR. WEISBERG: Q: I'm mindful of the time, Mr.
2 Chairman, and I'm going to proceed without giving
3 specific references unless asked by the panel.

4 The submission, the evaluation committee,
5 or "SEC," had the right to ask Green Island to provide
6 further information to confirm that it met financial
7 capacity and creditworthiness criteria. Can you just
8 confirm that the SEC did not do so?

9 MS. HEMMINGSEN: A: The SEC just reported to me on an
10 exception basis. So, if there was no exceptions, I
11 wouldn't have heard about it.

12 MR. WEISBERG: Q: Okay. And you can confirm, as well,
13 that the SEC had the right to ask Green Island to
14 provide further information to confirm adequate
15 certainty of fuel supply, but did not do so?

16 MS. HEMMINGSEN: A: Well, Mr. Eckert was on that
17 committee, so he would be in the best position to
18 confirm that.

19 MR. ECKERT: A: I do recall -- I do recall some
20 qualification questions. But ultimately, the SEC took
21 the decision that Green Island did meet the fuel
22 certainty requirements.

23 MR. WEISBERG: Q: Fully satisfied those requirements?

24 MR. ECKERT: A: Yes.

25 MR. WEISBERG: Q: Thank you. In the Commission's
26 January 23rd, 2004 letter to B.C. Hydro, on page three

1 it states:

2 "The Commission panel encourages B.C. Hydro
3 to accept a cost-effective portfolio with
4 dependable capacity as low as 115 megawatts
5 before considering other resource additions
6 than on-Island generation."

7 My question is, did B.C. Hydro interpret that to mean
8 that the BCUC recommended a 150 megawatt minimum?

9 **Proceeding Time 10:36 a.m. T29**

10 MS. HEMMINGSEN: A: Our interpretation of those
11 directions, and I would like to get the letter, just
12 so I'm clear, is that the BCUC established a minimum
13 of 150 megawatts, and to the extent that there was no
14 outcome that was cost-effective -- or sorry, as long
15 as that project was cost-effective and the aggregate
16 capacity is required to meet Vancouver Island and
17 system load requirements, that we would proceed on
18 that basis; and only if those criteria weren't met
19 would we look at portfolios that aggregated to less
20 than 150 megawatts. And on the basis that both those
21 criteria were met, i.e. that the DPP project Tier 1
22 outcome was established as cost-effective, and the
23 aggregate capacity was required to meet the Vancouver
24 Island requirements, we proceeded with Tier 1.

25 MR. WEISBERG: Q: You prefaced that answer by saying
26 that that was B.C. Hydro's interpretation, is that

1 correct?

2 MS. HEMMINGSEN: A: That's right, pursuant to the
3 Commission's January 23rd letter. As we've outlined in
4 either IRs or in the report that we filed, we did ask
5 the Commission to approve the terms of the CFT and the
6 EPA early on, and they declined to do so, preferring
7 to give their recommendations in the form of this
8 letter.

9 MR. WEISBERG: Q: Did B.C. Hydro take any steps to have
10 the Commission specifically confirm the interpretation
11 of the comment about a 115 megawatt limit?

12 MS. HEMMINGSEN: A: Well, as I said, we attempted to
13 get the Commission to preapprove the terms and
14 conditions, and they so declined and left us with this
15 letter.

16 MR. WEISBERG: Q: My question was more specific than
17 that. I'm wondering if B.C. Hydro took any steps to
18 have the B.C. Utilities Commission to confirm B.C.
19 Hydro's interpretation of the comment regarding the
20 115 megawatt minimum.

21 MS. HEMMINGSEN: A: Throughout the CFT process we had a
22 number of meetings with Commission Staff, and they
23 were involved in workshops and received questions and
24 answers throughout the process. This appeared to us
25 to be pretty clear about what to do, and we acted on
26 it. And it also, I'd like to point out, reiterates a

1 point from the VIGP decision, so it was clear to us
2 what the Commission was asking us to do, resulted in
3 the establishment of the Tier 2 option and the
4 decision rules under which we applied it.

5 MR. WEISBERG: Mr. Chairman, this morning in your
6 comments you provided a caution regarding areas of
7 cross-examination. One of the items that you
8 identified as being sufficiently canvassed was the
9 Calpine letter. I just want to alert you on moving
10 into that area, and I would ask that you -- I have
11 perhaps eight questions and I will read them in at
12 speed and ask that you rule on each one of those.

13 THE CHAIRPERSON: Yes, you don't need to do that with
14 respect to the Calpine letter, but I will interrupt
15 you and interrupt the panel's response if need be, so
16 proceed.

17 MR. WEISBERG: Fair enough.

18 MR. WEISBERG: Q: Can this panel confirm that Calpine
19 successfully passed the Phase 1 pre-qualification
20 phase of the CFT?

21 MS. HEMMINGSEN: A: I believe that that was published
22 on our website, the names of the bidders and the
23 projects that passed the first technical and
24 financial --

25 MR. ECKERT: A: That's correct.

26 MS. HEMMINGSEN: A: -- criteria.

1 MR. WEISBERG: Q: For the record, I don't think we're
2 quite there yet. So Calpine did pass.

3 MR. ECKERT: A: They did pre-qualify, yes.

4 MR. WEISBERG: Q: Thanks. So by definition --

5 THE CHAIRPERSON: I should just make this clear. My
6 silence does not suggest that you shouldn't object if
7 we're getting into confidential areas, Mr. Sanderson.

8 MR. SANDERSON: I understand, Mr. Chairman. The fact
9 that Calpine pre-qualified was on the record as far as
10 I can recall, so --

11 THE CHAIRPERSON: Okay.

12 MR. SANDERSON: -- I didn't object.

13 MR. WEISBERG: Q: Panel, can you confirm that by
14 definition that means that Calpine met all mandatory
15 criteria? Is that correct?

16 **Proceeding Time 10:40 a.m. T30**

17 MR. ECKERT: A: By definition, that meant that they met
18 all mandatory criteria applicable at the pre-
19 qualification stage, which did not include the
20 development risk assessment for the fuel -- or fuel
21 certainty.

22 MR. WEISBERG: Q: When did B.C. Hydro first become
23 aware of Calpine's proposed revision to the EPA
24 regarding a termination of the EPA in 2029 if Calpine
25 could not extend its lease to 2032?

26 MR. ECKERT: A: I'd suggest that that's a confidential

1 -- that's confidential information.

2 MR. SANDERSON: Mr. Chairman, I'm not -- I don't have
3 instructions on exactly what communications there were
4 or weren't with the different committees, and if Mr.
5 Eckert says that that occurred in the context of a
6 confidential status, then it did, from my perspective.
7 Basically, what we're attempting to do is keep the
8 communications between unsuccessful bidders and Hydro
9 generally confidential, and there was a limited
10 exception made in the context of the Calpine letter.
11 And it sounds like this goes well beyond that, because
12 it goes into the process as it was occurring, as
13 distinct from at the end with the letter. So I would
14 object.

15 MR. WEISBERG: I would -- I respect B.C. Hydro's caution,
16 and I think it's completely appropriate. I don't
17 agree with it in the specific application, because
18 Calpine's letter of comment, filed as Exhibit E-123,
19 specifically raises this point. And there is, I would
20 suggest on that point, no confidentiality left to
21 breach. I'll give you a moment, Mr. Chair.

22 THE CHAIRMAN: -- information that's beyond what's in the
23 letter, and this panel is of the view that that's
24 confidential, then I need some help from you as to why
25 it's not confidential.

26 MR. WEISBERG: Q: Paragraph 3 of Exhibit E-123 says

1 that "we wish to point out" -- I'm quoting -- "we wish
2 to point out that the Commission" -- sorry.

3 "We wish to point out to the Commission that
4 our bid was not considered by B.C. Hydro
5 because our bid proposed a revision to the
6 EPA. Since our land lease with our steam
7 host, Norske, currently only runs through
8 2029, we proposed to include a provision
9 that would allow the project to terminate
10 the EPA in 2029 if this lease was not
11 extended through the full 25-year term of
12 the EPA, or 2032."

13 I'm simply asking when B.C. Hydro first
14 became aware of Calpine's proposed revision. And I'll
15 accept an answer, a scope ruling, but I want to state
16 the question.

17 MR. SANDERSON: And the reason, to be clear, for my
18 objection is, the first paragraph of the letter is a
19 proposal by Calpine to file all of its material on a
20 confidential basis. Anything that goes beyond, then,
21 the third paragraph, where they seem to have waived
22 that, would remain confidential under the CFT process
23 rules. What is being asked for here is information
24 with respect to something Calpine can't know.

25 Calpine can know, and has disclosed, that
26 they put in an admittedly-deficient bid. So they've

1 volunteered that, and there it is. Why Hydro rejected
2 it presumably, it may be fair to assume, includes the
3 admitted deficiency here. It may include other
4 things. I don't know. And the only way you can get
5 there is to go into the specifics of how that bid was
6 treated. Which is exactly what I think we've decided
7 is outside scope. And that's the basis for my
8 objection.

9 MR. WEISBERG: I just want the record to note that Mr.
10 Sanderson came close, but didn't go over the line, of
11 giving evidence. There is no evidence in this hearing
12 that there was non-compliance in any respect, other
13 than this lease term. And please correct me if I'm
14 wrong.

15 **Proceeding Time 10:45 a.m. T31**

16 MR. SANDERSON: That was precisely my point. Calpine had
17 said we didn't comply in this respect. Hydro hasn't
18 said whether they complied in other respects precisely
19 or not. It said we have an admission from the party
20 that they didn't comply on a specific request --
21 respect, and what is being sought is elaboration of
22 Hydro. And that is going into what is otherwise
23 confidential for every other bidder.

24 THE CHAIRPERSON: Mr. Sanderson is correct, Mr. Weisberg.
25 If you craft your question so that you're not seeking
26 the disclosure of confidential information, you can

1 proceed. But if you're seeking disclosure of
2 confidential information, then this panel can't answer
3 the question. See, this is the problem with you not
4 having Calpine here.

5 MR. WEISBERG: I appreciate perhaps more than anyone --

6 THE CHAIRPERSON: This is also why it's on my list of
7 things that I think have been reasonably well
8 canvassed.

9 MR. WEISBERG: Q: The transcript yesterday at page
10 1228, line 13, Ms. Hemmingsen, you said -- actually I
11 think there's a -- is there an error in the
12 transcript? It says Ms. Hemmingsen question:

13 "As Ms. Van Ruyven testified, Calpine's bid
14 was rejected because it was non-compliant..."
15 I'm confused. Was that --

16 MS. HEMMINGSEN: A: I think it should be an answer.

17 MR. SANDERSON: That Q should be an A.

18 MS. HEMMINGSEN: A: Yeah.

19 MR. WEISBERG: Q: All right. I didn't know if
20 Hemmingsen should be Wallace or the Q should be an A.
21 But okay, that was your answer.

22 "As Ms. Van Ruyven testified, Calpine's bid
23 was rejected because it was non-compliant
24 with the prescribed terms and conditions
25 that were common to all bidders."

26 MS. HEMMINGSEN: A: Right. That's correct. And the

1 terms and conditions that I was referencing is that
2 any tenders that were conditioned in any way would be
3 rejected. That was requirement of the CFT that was
4 made known to all bidders, both through the release of
5 the CFT information and also at a bidder's tender
6 workshop which we held in July and reiterated that.
7 And that was the basis on which Calpine was rejected.
8 And as I go on to say further:

9 "Calpine had a number of opportunities
10 throughout the process to raise their issue
11 that ultimately led to their conditioned
12 bid."

13 Which they did not do so.

14 MR. WEISBERG: Q: When, if at all, did B.C. Hydro
15 first seek additional direction from the Commission
16 regarding Calpine's proposed revision?

17 MS. HEMMINGSEN: A: Sorry, when did we seek --

18 MR. WEISBERG: Q: I said when, if at all, did B.C.
19 Hydro first seek additional direction from the
20 Commission regarding Calpine's proposed revision?

21 MS. HEMMINGSEN: A: Under the terms, the legally
22 binding terms of the tender, we could not accept their
23 bid. It was conditioned. It was a rule of the
24 tender.

25 MR. WEISBERG: Q: Did B.C. Hydro bring Calpine's
26 proposed revision to the attention of the independent

1 reviewer?

2 MS. HEMMINGSEN: A: The independent reviewer was
3 involved in that. They oversaw that and endorsed the
4 rejection on that basis.

5 I want to make it clear we didn't have a
6 choice. There was no choice. There was no discretion
7 to allow a conditioned bid. And that was made known
8 to Calpine at this July 7th bidder's workshop.

9 MR. WEISBERG: Q: Is that captured in a particular
10 document? Again I don't want to take up time. If
11 that's something you can check for me and provide, I'd
12 accept that.

13 MS. HEMMINGSEN: A: We would have had presentation
14 material. I mean the bidder's workshop was not
15 transcribed or --

16 MR. WEISBERG: Q: Oh. I ask that that be left with you
17 as an undertaking if you accept it.

18 MR. SANDERSON: Well, we have testimony of what
19 transpired orally at a workshop that wasn't
20 transcribed. We will look to see if there's any
21 documentation that corroborates the testimony that's
22 already been given by Ms. Hemmingsen, and if there is
23 a document we'll produce it.

24 MR. WEISBERG: Mr. Chairman, I make that request because
25 it seems to me that given the implications of
26 disqualifying Calpine, B.C. Hydro and all parties

3 MS. HEMMINGSEN: A: I guess it's an element of the CFT
4 terms and conditions too, so presumably Calpine with
5 their legal counsel went through all the terms and
6 conditions, and that was clear to them right from the
7 outset. All we did was reiterate that requirement.

9 MR. WEISBERG: Q: I would ask that B.C. Hydro just
10 confirm exactly where in any of the CFT documentation
11 is found the edict that there is no discretion to be
12 applied to non-compliant bids.

14 MR. ECKERT: A: I'd also like to add that because the
15 tender was disqualified at that stage was never
16 evaluated against the mandatory criteria. So I --

20 MR. WEISBERG: Q: Thank you. Does B.C. Hydro believe
21 that some degree of uncertainty about the lease for
22 Calpine's 48 megawatt project in 2029 in any way
23 jeopardizes that project's ability to contribute to a
24 bridging solution beginning in 2007?

Allwest Reporting Ltd., Vancouver, B.C.

1 bid. So we didn't have the opportunity to make that
2 assessment.

3 MR. WEISBERG: Q: I'm asking for B.C. Hydro's judgment
4 and belief.

5 MR. SANDERSON: Sorry, Mr. Chairman, I was distracted on
6 the last outstanding IR. I'll have to ask Mr.
7 Weisberg to repeat that question.

8 MR. WEISBERG: Q: The question was, does B.C. Hydro
9 believe that some degree of uncertainty about the
10 lease for Calpine's 48 megawatt project in 2029 in any
11 jeopardizes that project's ability to contribute to a
12 bridging solution beginning in 2007? And I contend
13 that your --

14 MS. HEMMINGSEN: A: I think that's a different question
15 than you asked previously.

16 MR. WEISBERG: Q: I'll let the record speak for itself.
17 I believe I read it in accurately.

18 MR. ECKERT: A: The second -- the SEC technical sub-
19 committee would have evaluated that as part of the
20 development risk assessment. So that would have been
21 debated amongst that committee, to determine whether
22 or not that was material.

23 MS. HEMMINGSEN: A: And secure site tenure was not a
24 mandatory criterion.

25 MR. WEISBERG: Q: Mr. Eckert, what were the conclusions
26 of the SEC, then? They determined that some

1 uncertainty about a lease in 2029 --

2 MS. HEMMINGSEN: A: They did not review it.

3 MR. ECKERT: A: We didn't review it. What I'm
4 suggesting is, it would have been that committee's
5 responsibility to review that, and that would have
6 been debated, and a recommendation would have been
7 made based on that review.

8 MR. WEISBERG: Q: A recommendation whether to deem the
9 bid non-compliant or not.

10 MR. ECKERT: A: Whether to accept -- whether to deem
11 that that tender met the mandatory criteria with
12 respect to development risk or not.

13 MS. HEMMINGSEN: A: I just think it's important to
14 reiterate the chain of events. Calpine submitted a
15 non-compliant bid. As such, the development risk
16 assessment could not be applied to them.

17 MR. WEISBERG: Q: Does it -- does B.C. Hydro have no
18 opinion on my question as asked?

19 MR. ECKERT: A: Well, it -- well, the -- we would have
20 looked at the materiality of that, we would have also
21 looked at what mitigation plans a tender -- a bidder
22 may have described in terms of resolving that
23 disconnect.

24 And that would have been -- we would have
25 looked at whatever information the bidder would have
26 provided to try to make that judgment as best we

1 could.

2 MS. HEMMINGSEN: A: But we did not have the opportunity
3 to make that assessment, because it was a non-
4 compliant bid, so it was automatically, clearly
5 eliminated from the projects we could consider.

6 MR. WEISBERG: Q: Ms. Hemmingsen, I'm giving you that
7 opportunity now. I'm asking for B.C. Hydro's belief.

8 MS. HEMMINGSEN: A: It's not something we can --

9 MR. SANDERSON: That is just not constructive, Mr.
10 Chairman. Whether or not Mr. Weisberg thinks it's
11 sensible, the fact is the process couldn't have been
12 clearer as testified to in the last 15 minutes by the
13 witnesses. That is, a bid which contained a condition
14 would not be opened, would not be considered and would
15 not be subject to the technical review.

16 **Proceeding Time 10:55 a.m. T33**

17 Now, if he wants to explore why was it set
18 up that way, it seems to me that's fair enough,
19 although there's probably answers to that on the
20 record. But that's fair enough. That goes to the
21 mandatory criteria and the structure of the whole
22 process. But to say, well, what if it had been
23 otherwise, and what would you now have done if you had
24 opened it, which admittedly you didn't, and if it had
25 said this, which admittedly we have no evidence of
26 what it said, I suggest can't possible be constructive

1 for this record.

2 THE CHAIRPERSON: Mr. Sanderson has given you a good
3 suggestion, Mr. Weisberg, and I think Mr. Sanderson is
4 correct. It is an issue that you can pursue, but
5 pursuing it in the context of Calpine isn't very
6 helpful. I do think you need to move on.

7 MR. WEISBERG: I will do that.

8 MR. WEISBERG: Q: Your direct testimony, Ms.
9 Hemmingsen, refers several times to the cost-
10 effectiveness analysis, but it also describes it -- I
11 am paraphrasing it, as process to determine whether
12 there were compelling reasons to reject the Tier 1
13 outcome analysis. Is that right?

14 MS. HEMMINGSEN: A: Do you have a specific reference or
15 should I just search for it?

16 MR. WEISBERG: Q: Page 8, line 24 through 34.

17 MS. HEMMINGSEN: A: Okay. That's right. And this is
18 the cost-effective analysis that was performed outside
19 of the CFT process. So this question might be better
20 directed to Panel 4.

21 MR. WEISBERG: Q: Stay on this line for one more
22 question and you can see if all of it should be
23 directed to Panel 4.

24 Was senior management advised in the
25 context of this review to see if there were any
26 compelling reasons to reject the Tier 1 outcome? Were

1 they advised of the specific circumstances and the
2 impact of Calpine's disqualification?

3 MS. HEMMINGSEN: A: In the report to the senior
4 management -- and I believe Ms. Van Ruyven testified
5 to this, the results out of the QEC were outlined to
6 them as well as the status of the bidders, and the
7 independent reviewer was in attendance at that
8 meeting, and the senior management accepted that
9 report.

10 MR. WEISBERG: Q: Was senior management or the board of
11 directors ever advised that the specific circumstances
12 and the impact of the disqualification of Calpine's
13 bid and --

14 MS. HEMMINGSEN: A: They were --

15 MR. WEISBERG: Q: I'm not finished my question. And
16 the failure to evaluate an alternative Tier 1
17 portfolio might be a compelling reason to reject the
18 outcome of the CFT process?

19 MS. HEMMINGSEN: A: They were advised of the bidders
20 that were disqualified and the reasons why they were
21 disqualified generally, not the specifics. And they
22 were also advised of the impact on the Tier 1
23 portfolios.

24 MR. WEISBERG: Q: And by that was it made clear to
25 senior mgt and the board of directors that two
26 otherwise fully qualifying projects, Green Island and

1 Epcor, were excluded from consideration under the QEM?

2 MS. HEMMINGSEN: A: Under the Tier 1, yes, but they

3 were considered under the cost-effectiveness analysis

4 that was performed.

5 MR. WEISBERG: Q: But not under the QEM.

6 MS. HEMMINGSEN: A: Not under the QEM.

7 MR. WEISBERG: Q: And senior management and the board

8 was aware of that.

9 MS. HEMMINGSEN: A: Senior management was aware. I'd

10 have to consider what the board was made aware of.

11 Senior management was aware that there was no small

12 portfolio of projects that could be assembled as Tier

13 1.

14 MR. WEISBERG: Q: In page 9 of your direct testimony

15 beginning at line 9, you say:

16 "The cost-effectiveness..."

17 And I believe there's a typo there. It doesn't say

18 "analysis" but perhaps it should.

19 "...cost-effectiveness was a supplementary

20 high-level simplified analysis to check if

21 there were any compelling reason to reject

22 the results of a fair, competitive process

23 that provided a reliable solution for

24 Vancouver Island's looming capacity

25 deficit."

26 Rather than prejudging the process as fair and

1 competitive, would it not have been more objective to
2 ask whether there were simply any compelling reasons
3 to reject the CFT outcome?

4 MS. HEMMINGSEN: A: Well, I would interpret the two as
5 being one and the same.

6 **Proceeding Time 11:00 a.m. T34**

7 MR. WEISBERG: Q: I wouldn't, but I'll leave the
8 question.

9 If some aspect of the process were found by
10 the Commission to be unfair, or uncompetitive, might
11 that in itself -- no, let me rephrase. If some aspect
12 of the process was unfair or uncompetitive, might that
13 in itself be a compelling reason to reject the CFT
14 outcome?

15 MS. HEMMINGSEN: A: I suppose so, yes.

16 MR. WEISBERG: Q: Are you able to say "yes" or "no"?
17 If some process -- some aspect of the CFT process was
18 unfair or uncompetitive, might that not be a
19 compelling reason to reject the CFT outcome? I said
20 "might". You can be definitive. "Yes, it might,"
21 "No, it might."

22 MS. HEMMINGSEN: A: I mean, I'm just finding the
23 question too general. We had an independent reviewer
24 who was involved in the design and execution of this
25 process through all the stages, who affirmed its
26 fairness, and competitiveness. So I'm at a loss to

1 identify any reasons why it might be determined not to
2 be fair. The rules, the requirements, were
3 transparently provided to bidders, where they had the
4 opportunity to provide revisions, changes, these were
5 considered carefully by B.C. Hydro in the process, and
6 the CFT was designed to attract bids to get dependable
7 capacity at a date certain time.

8 MR. WEISBERG: Q: And you understand that a
9 determination whether the CFT process was unfair or
10 uncompetitive is a live issue for the Commission to
11 determine in this hearing?

12 MS. HEMMINGSEN: A: I do. And I guess our position is
13 that it was fair and competitive.

14 MR. WEISBERG: Q: Still on page 9 of your evidence,
15 lines 15 through 29. At line 26, you say:

16 "Therefore, had the analysis indicated that
17 the scenarios relying heavily on contingency
18 measures, such as the no award, were lower-
19 cost relative to Tier 1 outcome, B.C. Hydro
20 would have further considered the non-
21 quantitative considerations."

22 Is it correct for me to say that, rather than
23 evaluating the Green Island, Epcor and Calpine
24 portfolio, all bids which satisfied all mandatory
25 criteria, B.C. Hydro instead used -- I'm sorry. B.C.
26 Hydro instead constructed a portfolio heavily reliant

1 upon hypothetical temporary generators?

2 MS. HEMMINGSEN: A: This is probably a question better
3 addressed to Panel 4, but I can offer a quick
4 clarification, if you'd like.

5 MR. WEISBERG: Q: Please.

6 MS. HEMMINGSEN: A: B.C. Hydro constructed two
7 alternatives. One was a Tier 2 portfolio, which
8 consisted of the bids that met all the criteria under
9 the CFT, save being able to be assembled into a 150
10 megawatt portfolio. And to that was added contingency
11 bridging measures on a least-cost basis.

12 MR. WEISBERG: Mr. Chairman, here are my specific --
13 sorry. General questions regarding the QEM, just to
14 alert you.

15 MR. WEISBERG: Q: Did B.C. Hydro ever evaluate Green
16 Island's project alone, using the QEM?

17 MS. HEMMINGSEN: A: Green Island's project was
18 evaluated as a tender result, under the QEM. It could
19 not be assembled into a portfolio. The price envelope
20 was opened and its price terms were processed through
21 the QEM.

22 MR. WEISBERG: Q: Did B.C. Hydro ever evaluate Green
23 Island and Epcor projects using the QEM? The
24 combination of the two.

25 MS. HEMMINGSEN: A: I can't comment on the name of the
26 other party that we evaluated. However, there was a

1 small project that was evaluated --

2 MR. WEISBERG: Q: Can you use a reference number that
3 maintains bidder confidentiality in the table that we
4 looked at there?

5 MS. HEMMINGSEN: A: Well, there was a small 47 megawatt
6 project that was evaluated similar to Green Island.

7 MR. WEISBERG: Q: It was evaluated in the QEM with
8 Green Island.

9 MS. HEMMINGSEN: A: It was -- Mr. Soulsby can speak to
10 the specifics. The price envelope was --

11 MR. SOULSBY: A: The Green Island Energy bid was not
12 assembled into any portfolio in the QEM. So it was
13 not assessed in the QEM with any other project.

14 MS. HEMMINGSEN: A: But it was out --

15 MR. WEISBERG: Q: I believe that's different than Ms.
16 Hemmingsen said, I just want the record clear. Was
17 Green Island's project, either alone or in a portfolio
18 with any other project, evaluated under the QEM?

19 MR. SOULSBY: A: The QEM has two components, as we've
20 covered yesterday. It has the tender sheet component,
21 it has the portfolio component. Green Island Energy's
22 bid was associated -- was analyzed in the tender sheet
23 component, and that means it was analyzed on its own
24 in the tender sheet. It did not aggregate into a
25 portfolio of 150 megawatts with any other project and
26 so therefore it was not evaluated in the portfolio

1 sheet side of the QEM.

2 MS. HEMMINGSEN: A: And the 47 megawatt hour project
3 was evaluated similarly, and because it could be
4 combined with other projects and meet the threshold of
5 300 megawatts it was evaluated in a portfolio.

6 MR. WEISBERG: Q: Those -- I'll leave that.

7 **Proceeding Time 11:05 p.m. T35**

8 THE CHAIRPERSON: That's already in the evidence.

9 MR. WEISBERG: Q: If that's the case, then is it true
10 that B.C. Hydro cannot definitively say that either a
11 Green Island and Epcor portfolio, or Green Island,
12 Epcor and Calpine portfolio would not be more cost-
13 effective than the Duke Point project?

14 MR. SANDERSON: We already have evidence, I think, from
15 this panel that the Calpine bid wasn't accepted. So
16 first of all, the premise, you know -- the potential
17 for confusion is just too great to leave the witness
18 to answer, because the premise is false.

19 Well, maybe I'll just leave it there.

20 MR. WEISBERG: Q: I haven't asked for that
21 determination to be made. Under the specific terms of
22 the CFT I don't believe that the cost-effectiveness
23 analysis was specifically provided for in advance.
24 But do you want me to restate the question or will you
25 not answer?

26 MS. HEMMINGSEN: A: I'm not sure I understand what the

1 question is.

2 MR. WEISBERG: Q: The question is this. If Green
3 Island's project, with or without other projects, was
4 not evaluated under the QEM, can B.C. Hydro
5 definitively say that either of those portfolios would
6 not have been more cost-effective than the Duke Point
7 project?

8 MS. HEMMINGSEN: A: I'm getting confused with your
9 characterization of portfolios. Are we into the cost-
10 effectiveness analysis and the two alternatives that
11 we put forward being Tier 2 combined with other
12 contingency measures and the no award, or are we
13 looking in the QEM where there was no portfolio to
14 assemble that included Green Island?

15 MR. WEISBERG: Q: We are in the vicinity of the latter.

16 MS. HEMMINGSEN: A: Okay.

17 MR. WEISBERG: Q: I think you've confirmed that Green
18 Island and Epcor, the portfolio that they might
19 have --

20 MS. HEMMINGSEN: A: No, I confirmed the 47 megawatt
21 plant.

22 MR. SOULSBY: A: There was no portfolio in a QEM that
23 contained Green Island Energy in any other bid.

24 MR. WEISBERG: Q: I understand that. I'm saying
25 because you didn't assemble those portfolios, and I
26 understand that's because you believe that's the terms

1 of the CFT, but because you did not, and those
2 projects existed, and in the case of Green Island and
3 Epcor they met all the criteria of the CFT, under
4 those circumstances can B.C. Hydro definitively say
5 that either of those portfolios, and I will say this,
6 hypothetical portfolios if it pleases you, would not
7 have been more cost-effective than the Duke Point
8 project?

9 MS. HEMMINGSEN: A: Once again this is probably a Panel
10 4 question, but I can answer it fairly quickly.

11 MR. WEISBERG: Q: Please don't subject Panel 4 to --

12 MS. HEMMINGSEN: A: Pardon me? I'm on Panel 4 too, so.

13 MR. WEISBERG: Q: I'm being glib. For the record, I'm
14 trying to be glib.

15 MS. HEMMINGSEN: A: So do you want the quick answer?

16 MR. WEISBERG: Q: If you can give me a quick answer,
17 thank you.

18 MS. HEMMINGSEN: A: The approach to undertaking the
19 cost-effectiveness analysis was to take the harshest
20 test against the Tier 1 outcome. So what we assembled
21 was the two projects that were successful, which were
22 Tier 2 projects in terms of the CFT. And then we
23 applied the next least cost contingency measure. If
24 we had applied a peaker type of facility, it would
25 have increased the cost of that Tier 2 portfolio. So
26 that was the approach that we took.

1 MR. WEISBERG: Q: Can you turn to page 10 of your
2 direct testimony, Ms. Hemmingsen, looking at beginning
3 at line 15?

4 "Disallowing the DPP EPA will mean the
5 Vancouver Island electricity supply will not
6 meet Commission accepted reliability
7 planning standards until such time as a 230
8 kV AC replacement transmission system is
9 built and put in service."

10 **Proceeding Time 11:10 a.m. T36**

11 Do you acknowledge that the projects bid by Green
12 Island, Epcor and Calpine all satisfied the CFT
13 criteria for being in service by 2007?

14 MS. HEMMINGSEN: A: The Calpine, we could not make that
15 assessment because they were a non-compliant bid, so
16 we couldn't review their development risk.

17 MR. WEISBERG: Q: You couldn't because you were
18 precluded from looking any further?

19 MS. HEMMINGSEN: A: Yes.

20 MR. WEISBERG: Q: And you saw the -- whatever it was, a
21 note about the lease issue before there was any
22 evidence of it -- of its availability for in-service
23 by 2007?

24 MS. HEMMINGSEN: A: I think we testified to that.

25 MR. WEISBERG: Q: I note Mr. Sanderson getting to his
26 feet. I'll move on.

1 Is it somewhat misleading, though, to
2 suggest that the -- if the DPP EPA is disallowed, that
3 no other solutions could be put in place before the
4 230 kV cables are available?

5 MS. HEMMINGSEN: A: That's not what that statement
6 says. It says the reliability planning standards,
7 which means that we meet the gap that is forecast, and
8 that's around 260 megawatts. And that's assuming that
9 the cable is in service at its earliest in-service
10 time.

11 MR. WEISBERG: Q: So if the DPP EPA is disallowed in
12 this proceeding, it's your evidence that it's
13 impossible for B.C. Hydro to meet the Commission-
14 accepted reliability planning standards?

15 MS. HEMMINGSEN: A: No, I don't think that's what it
16 says. It says it will not meet, because there will be
17 a gap.

18 MR. WEISBERG: Q: When I read that in, I didn't say --
19 I didn't read all of the quote, which said "Until such
20 time as the 230 kV replacement transmission system is
21 built and put in service." Let's add that to the
22 record.

23 MS. HEMMINGSEN: A: Mm-hmm.

24 MR. WEISBERG: Q: Staying on page 10, Ms. Hemmingsen,
25 lines 28 to 30, there's a quote:

26 "Furthermore, since projects represented by

1 the CFT Tier 2 bids received are no longer
2 binding, B.C. Hydro would likely need to
3 establish some competitively-based process
4 to secure such options."

5 Earlier this morning in cross-examination you noted
6 that Calpine and Green Island have confirmed on the
7 record that they would proceed on the basis of --
8 proceed with their projects on the basis as bid in the
9 CFT. And would you accept that Epcor may, before the
10 evidentiary phase of this proceeding closes, provide a
11 similar confirmation?

12 MR. SANDERSON: We keep having a disconnect, and I'm
13 afraid it's going to not get picked up by my very
14 alert witness one of these times. We keep hearing
15 from Mr. Weisberg, Epcor, we keep hearing from the
16 witnesses that they don't accept that that
17 characterization -- that they don't -- haven't
18 testified to, and we have no evidence of what the
19 other project might have been that was under 122
20 megawatts. I think Mr. Weisberg successfully
21 characterized it as a 47 megawatt peaker at Ladysmith,
22 and maybe if he can just keep doing that, we'll keep
23 the two sides of the debate on the same page.

24 MR. WEISBERG: Q: For clarification on the record, when
25 I've said Epcor in my questions up to this point, I
26 referred to the project as just described by Mr.

1 Sanderson.

2 THE CHAIRMAN: And I would encourage you to do it in your
3 questioning from this point on, too.

4 MR. WEISBERG: Thank you.

5 MR. WEISBERG: Q: Do you agree that if the proponents
6 of the Gold River, Ladysmith and Campbell River
7 projects agreed to enter EPAs on terms as bid in the
8 CFT, that no further competitive process would be
9 required to secure those options?

10 MS. HEMMINGSEN: A: We'd have to consider that in the
11 broader context of our competitive procurement
12 activities. I'm sure other parties would jump up and
13 claim "unfair".

14 **Proceeding Time 11:15 a.m. T37**

15 MR. WEISBERG: Q: Have you considered it?

16 MS. HEMMINGSEN: A: Well, we've outlined that as one of
17 the cost-effectiveness alternatives. I think there is
18 some broader issues in terms of proceeding with those
19 projects outside of a competitive process.

20 MR. WEISBERG: Q: On page 11 of your evidence, Ms.
21 Hemmingsen, line 4:

22 "As stated by the Commission in the VIGP
23 decision, the success of the CFT is
24 important to the enhancement of goodwill
25 that may benefit future resource call."

26 And it does say "call" not "calls".

1 Do you believe that success of the CFT
2 equates to approval of the EPA with the EPP?
3 MS. HEMMINGSEN: A: Do I believe that success --
4 MR. WEISBERG: Q: Do you believe that "success of the
5 CFT" equates to approval of the EPA with Duke Point?
6 MS. HEMMINGSEN: A: Success of the EPA?
7 MR. WEISBERG: Q: No, success of the CFT.
8 MS. HEMMINGSEN: A: Equates to approval of the EPA?
9 MR. WEISBERG: Q: Of the EPA with Duke Point.
10 MS. HEMMINGSEN: A: In part, yes.
11 MR. WEISBERG: Q: What part not?
12 MS. HEMMINGSEN: A: Well, I think that these
13 proceedings are a signal to the competitive markets
14 about what they may or may not expect in the future,
15 and that will colour their interest in participating
16 in B.C. Hydro's competitive processes. The goodwill
17 aspect is very important, in fact. The conversations
18 with the unsuccessful bidders, barring Green Island,
19 indicated that they felt we ran a very fair,
20 professional process that set a standard in terms of
21 their participation in other jurisdictions.
22 MR. WEISBERG: Q: The reference I've given you and the
23 quote I read-in was itself your quote of what the
24 Commission previously stated. The Commission, though,
25 couldn't possibly have predicted that Duke Point would
26 emerge as the winner of the CFT. So would you agree

1 that "success of the CFT" must have some other meaning
2 to the Commission?

3 MS. HEMMINGSEN: A: I'm not following what you're
4 asking me.

5 MR. WEISBERG: Q: Your evidence says, and I quote:

6 "As stated by the Commission in the VIGP
7 decision, the success of the CFT is
8 important to the enhancement of goodwill
9 that may benefit future resource call."

10 So I'm saying that at the time the Commission made
11 that statement, couldn't possibly have known that Duke
12 Point would emerge the winner of the CFT process. So
13 they must have had some other concept of what the
14 success of the CFT meant, other than approval of the
15 Duke Point EPA as you've just told me in your previous
16 answer.

17 MS. HEMMINGSEN: A: The EPA was a common EPA for any
18 successful proponent. So in terms of the success of
19 the CFT and the related approval of the EPA, I see
20 that as one of the same thing. The success of the CFT
21 is based on extensive efforts to make the process
22 transparent, to encourage active bidder interest and
23 to permit a number of opportunities for bidders to
24 comment, and for them to feel that it was a fair
25 process. And as I've just said, a number of bidders
26 did tell me that.

1 MR. WEISBERG: Q: On page 11, line 8, your direct
2 testimony states:

3 "To introduce new criteria raises the risk
4 profile..."

5 And the sentence continues on but I will end the quote
6 there. What new criteria are you referring to?

7 MS. HEMMINGSEN: A: Well, the VIGP decision committed
8 to an expedited review, and the January 23rd letter
9 established that the prospect of no oral hearing. So
10 to the extent -- and I recognize why we're here, but
11 to the extent that we have this additional process, it
12 raises concerns for bidders and for future
13 participants in our calls.

14 MR. WEISBERG: Q: Specifically what new criteria are
15 you referring to?

16 **Proceeding Time 11:20 a.m. T38**

17 MS. HEMMINGSEN: A: Going through additional processes
18 to seek approval and new risks associated with that,
19 with the broader scope of review.

20 MR. WEISBERG: Q: We've reviewed over the past much too
21 long all sorts of different criteria in the CFT.
22 You're very good at criteria. Can you not elaborate
23 more than what you just have on what new criteria you
24 are referring to? Your answer is very general.

25 MS. HEMMINGSEN: A: Well, our previous calls resulted
26 in successful awards and they were filed with the

1 Commission and there was no review of them. So that
2 could be a standard that bidders expect.

3 MR. WEISBERG: Q: I'm not sure that in the answer you
4 just gave me you identified any other new criteria.

5 MS. HEMMINGSEN: A: No, in my previous answer I
6 identified the new criteria. More significant review
7 process than was originally anticipated.

8 MR. WEISBERG: Q: And that's the only --

9 MS. HEMMINGSEN: A: Which raises risks for bidders and
10 increases the cost potentially for B.C. Hydro to
11 contract with the private sector.

12 MR. WEISBERG: Q: That's the only new criteria you are
13 referring to in your evidence?

14 MS. HEMMINGSEN: A: Well, all of the criteria that are
15 introduced by that process.

16 MR. WEISBERG: Q: Well, what else are they? I don't
17 want to speculate, I don't want to put words in your
18 mouth or in argument attribute something to you that
19 you didn't say, so tell me what those criteria are.

20 MS. HEMMINGSEN: A: Supplementing a competitive fair
21 process -- supplanting, sorry. Supplanting a
22 competitive fair process by some options that aren't
23 binding, aren't firmed up, the volumes and timing
24 certainty aren't the same as this process yielded.

25 MR. WEISBERG: Q: And you contend that those new
26 criteria as you've described them were introduced by

1 the Commission, is that right?

2 MS. HEMMINGSEN: A: That these criteria are a result of
3 this process, that as we've testified was more
4 extensive than we anticipated and I believe it was
5 more extensive than the bidders anticipated based on
6 the Commission's original directions and
7 recommendations and letters.

8 Now, having said that, I appreciate why
9 we're here.

10 MR. WEISBERG: Q: Whether or not one agrees with how
11 you've defined criteria, it's certainly not B.C.
12 Hydro's position that the Commission lacks the
13 authority to impose criteria on B.C. Hydro?

14 MS. HEMMINGSEN: A: No it's not.

15 MR. WEISBERG: Q: Regarding the EPA with Duke Point,
16 were there any negotiations of any kind between B.C.
17 Hydro and Duke Point regarding the form of the EPA,
18 after the decision to award the contract on October
19 19th and before the filing of the EPA with the
20 Commission?

21 MS. HEMMINGSEN: A: The only amendment or discussions
22 were around the misalignment of the date of the
23 Commission's decision being February 17th and the
24 current date in the EPA which is February 14th, and Mr.
25 Sanderson outlined that and the actions that we're
26 taking place to align those two dates.

1 And there was certainly nothing prior to
2 signing the EPA, signing and executing the EPA.

3 MR. WEISBERG: Q: In previous testimony, B.C. Hydro
4 witnesses have stated that B.C. Hydro contracted --
5 has contracted 1800 gigawatts, gigawatt hours in the
6 last call, is that correct?

7 MS. HEMMINGSEN: A: That's correct. I think it's 1780.
8 That's close enough.

9 MR. WEISBERG: Q: Thank you. I appreciate your
10 precision. How many projects were awarded contracts
11 under that call?

12 MS. HEMMINGSEN: A: I believe there was 16, but that's
13 subject to check.

14 MR. WEISBERG: Q: I'll take -- accept that as an
15 undertaking please. Thanks. Is that acceptable?

16 MS. HEMMINGSEN: A: Sure, I'll check.

17 MR. SANDERSON: We can check that.

18 MR. WEISBERG: Q: Thank you.

19 **Information Request**

20 MR. WEISBERG: Q: How many of those projects have
21 broken ground?

22 MS. HEMMINGSEN: A: I don't have that information with
23 me.

24 MR. WEISBERG: Q: I would accept that, subject to your
25 check.

26 MR. SANDERSON: Sure. I mean, I'm sure we can check

1 into it. I guess I will inquire first, though, as to
2 the relevance of that to this particular proceeding.

3 **Proceeding Time 11:25 a.m. T39**

4 THE CHAIRMAN: Mr. Weisberg, are you moving on?

5 MR. WEISBERG: I'm considering it. And I am moving on,
6 yes.

7 MR. SANDERSON: Just so the record's clear, I'm not
8 agreeing to respond to that last one, unless I get
9 some indication of why it might be relevant.

10 MR. WEISBERG: Q: That's fine.

11 Does this panel agree, or --

12 THE CHAIRMAN: Just for the record, then, that last
13 undertaking will not be responded to.

14 MR. WEISBERG: I accept that.

15 MR. WEISBERG: Q: Does B.C. Hydro agree that the EPA
16 provides variations for heat and humidity for gas
17 projects, but does not do the same for non-gas
18 projects?

19 MR. ECKERT: A: The EPA provides for variations in
20 capacity and heat -- for capacity and -- for any
21 project, as I understand it.

22 MS. HEMMINGSEN: A: I believe there's an IR that
23 answers that question. I think it's the 1.4 series
24 actually asked by you, Green Island.

25 MR. WEISBERG: Q: Do you agree that the EPA provides a
26 tolling arrangement for fuel for gas projects, but

1 provides no equivalent accommodation for non-gas
2 projects?

3 THE CHAIRMAN: Well, Mr. Weisberg, do you not think
4 that's in the evidence already?

5 MR. WEISBERG: I'll move on.

6 THE CHAIRMAN: Please.

7 **Proceeding Time 11:28 a.m. T40**

8 MR. WEISBERG: Q: Mr. Simpson, can you turn up your
9 evidence, please, on page 1 -- I'm sorry, page 3 of
10 your evidence. I'll just leave that as the general
11 reference.

12 In the context of power planning
13 activities, can you tell me what you would normally
14 consider long term to be in terms of the number of
15 years?

16 MR. SIMPSON: A: In terms of -- in the context of a --

17 MR. WEISBERG: Q: I said in the context of power
18 planning activities, but --

19 MR. SIMPSON: A: Power planning activities. I have
20 typically 20 years.

21 MR. WEISBERG: Q: Okay.

22 MR. SIMPSON: A: Yeah.

23 MR. WEISBERG: Thank you. Mr. Chair, those are all my
24 questions.

25 MR. FULTON: Mr. Lewis is next, Mr. Chair.

26 MR. LEWIS: Thank you very much. I appreciate the time

1 you've allotted to everyone and wide berth you've
2 given us so far. I have not requested a copy of the
3 QEM. I have, however, read every bit of information
4 regarding its development, implementation and
5 evaluation. Some of the documents that pertain to
6 that would be the QEM methodology summary dated August
7 6, 2004, Appendix 3 of the EPA, and both the CFT
8 reports of B.C. Hydro and the independent reviewer.
9 So I'll try to limit any comments I may have regarding
10 the QEM to such higher-level examination rather than
11 simply the mechanics of it.

12 Not being a lawyer and not having legal
13 counsel, I'm going to respectfully request that I get
14 some direction from you with regard to a comment you
15 made this morning on Panel 4 cross-examination. Would
16 now be an appropriate time?

17 THE CHAIRPERSON: Yes, ask the question.

18 MR. LEWIS: Thank you. Is there any evidence that I'll
19 be needed to request or file in order so as not to
20 limit my cross-examination on Panel 4?

21 THE CHAIRPERSON: My comment was with respect to gas and
22 electricity prices in the context of this panel.

23 MR. LEWIS: Okay.

24 THE CHAIRPERSON: I have not spoken to issues related to
25 Panel 4, and I'm not going to at this time.

26 MR. LEWIS: Okay, thank you. But you'll make those known

1 as early as possible if some arise, so that I would
2 have an opportunity to prepare for that? Thank you.

3 THE CHAIRPERSON: Well, you had -- Mr. Lewis, you had an
4 opportunity to file evidence on the matters that are
5 before this proceeding. You made the decision that
6 you did with respect to that and put at issue things
7 in your own evidence that's relevant to consideration
8 of the length of your cross-examination. There isn't
9 anything that you can do now to change that.

10 MR. LEWIS: Sure, but my cross-examination isn't limited
11 to simply my evidence. It's also the evidence
12 provided by Hydro.

13 THE CHAIRPERSON: That's correct, of course.

14 MR. LEWIS: Thank you.

15 THE CHAIRPERSON: Yes.

16 **Proceeding Time 11:30 a.m. T41**

17 **CROSS-EXAMINATION BY MR. LEWIS:**

18 MR. LEWIS: Q: My first question goes to Ms.
19 Hemmingsen. Can you explain to me how having
20 unpublished criteria that allow B.C. Hydro to move
21 from a Tier 1 to a Tier 2 decision-making process that
22 was unspecified until a recent IR, adds certainty to
23 the bidding process?

24 MS. HEMMINGSEN: A: Well, I guess we made tremendous
25 effort to publish and provide all of the decision
26 rules, and that one was confirmed just prior to

1 receipt of the tenders. And we have released what the
2 decision rule was in the filing that we made. And it
3 was adhered to, and it can be affirmed by the
4 independent reviewer.

5 So I guess there was two mechanisms, one
6 was to publish all that information and make it
7 transparent; the second was to use the services of an
8 independent reviewer throughout the process to affirm
9 that the process was transparent, and that pre-defined
10 rules were developed and applied.

11 MR. LEWIS: Q: Sure, thank you. I'm speaking
12 specifically to the direction of the IR on -- that was
13 Section 4, that Mr. Weisberg spoke to earlier, that
14 said they would like to see the specific decision-
15 making process. And I believe your response to that
16 was that it was maybe noted in the minutes of a
17 meeting between the IR and Hydro.

18 MS. HEMMINGSEN: A: No, I don't think I said it was
19 "maybe" noted, it was noted --

20 MR. LEWIS: Q: Okay.

21 MS. HEMMINGSEN: A: -- in the minutes, and that issue
22 was closed off to the satisfaction of the IR and I
23 think what I suggested is, you could pursue the IR as
24 to the reason why they did or didn't include that in
25 their report.

26 MR. LEWIS: Q: And so, just to clarify, then, when was

1 that fact made public? When was it available to
2 everyone, to the bidders, that you had made that
3 determination?

4 MS. HEMMINGSEN: A: I don't think it was made public.

5 MR. LEWIS: Q: Okay, so it wasn't in the flow chart
6 that Mr. Weisberg showed, and it wasn't in any public
7 documentation until the IR that requested that?

8 MS. HEMMINGSEN: A: It -- subject to a check, I'm not
9 sure the flow chart was made available to bidders.
10 The IR's requirements were that we had prescribed
11 rules, developed in advance, about how we would treat
12 tenders. But I'd have to check that.

13 MR. LEWIS: Q: Okay. So what -- basically what I'm
14 looking at is this cost certainty you talk about for
15 bidders. How did they have that, if, under Section
16 17.3 of Addendum 10, that gives B.C. Hydro the sole
17 and unfettered discretion to reject a portfolio over
18 150 megawatts for unspecified and undisclosed cost
19 effectiveness criteria, how does that eliminate risk
20 or certainty in the CFT bidding process?

21 MS. HEMMINGSEN: A: So you prefaced that by saying,
22 "How do we have cost certainty" by having that --

23 MR. LEWIS: Q: No, bid certainty.

24 MS. HEMMINGSEN: A: Okay.

25 MR. LEWIS: Q: You've said that by having a negative
26 outcome of this process it will do damage to the bid

1 certainty. What I'm saying is, I sort of feel that
2 you already have implanted that in this bid process.

3 MS. HEMMINGSEN: A: Yeah. And I guess we went to our
4 utmost efforts to specify all the criteria that were
5 applicable, and there was -- and I believe Ms. Van
6 Ruyven testified to this; there was this privative
7 clause, and I believe, if I'm not wrong, it's Section
8 17.3, where B.C. Hydro had to reserve a discretion in
9 the event of two circumstances.

10 One is there was no ceiling price, so
11 therefore we didn't want to subject ourselves to
12 taking, you know, silly bids that were bid in, and
13 second, we had to be -- consider the cost-
14 effectiveness in terms of the impact to ratepayers of
15 any of the solutions. So we reserved that right, we
16 discussed with the independent reviewer what would be
17 the basis to move from Tier 1 to Tier 2 within the CFT
18 competitive process. And then we got direction from
19 senior management on what would be the basis to move
20 and overturn the competitively-determined outcome of
21 Tier 1.

22 MR. LEWIS: Q: Thank you, I --

23 MS. HEMMINGSEN: A: And that's what we've put forward
24 here, is that approach.

25 MR. LEWIS: Q: I -- sorry. I appreciate your utmost
26 efforts, but the specific question I'm asking is with

1 the privative clause, 17-3, it gives you the sole and
2 unfettered right to disqualify a 150 megawatt project
3 or larger based on unspecified criteria, does it not?

4 **Proceeding Time 11:35 a.m. T42**

5 MS. HEMMINGSEN: A: It does --

6 MR. LEWIS: Q: Thank you.

7 MS. HEMMINGSEN: A: -- establish our right --

8 MR. LEWIS: Q: Thank you.

9 MS. HEMMINGSEN: A: -- to do that, yeah.

10 MR. LEWIS: Q: Thank you. Does that not --

11 MR. SANDERSON: Now, Mr. Lewis, I'm sorry. Let the
12 witness finish, please. Thank you.

13 MR. LEWIS: Q: Proceed, I'm sorry.

14 MS. HEMMINGSEN: A: It establishes that right and then
15 it defines cost effectiveness, and I'm not sure if Mr.
16 Eckert can maybe get me that provision, in terms of
17 consideration of the ratepayer, and that references
18 the Commission's direction again on the cost-
19 effectiveness test, that it wasn't just least cost, it
20 included non-price factors and reliability and timing
21 considerations.

22 MR. LEWIS: Q: Okay, so walk me through the process
23 here. The 17.3 was put through on March 5th, if I'm
24 correct, the IR came back with a letter dated March
25 11th saying, "You have to specify this."

26 MS. HEMMINGSEN: A: Yes.

1 MR. LEWIS: Q: You've since answered that the IR said,
2 "Okay, we discussed, we figured out that it was based
3 on collusion and competitiveness." You didn't say
4 anything about what's cost effective.

5 MS. HEMMINGSEN: A: Yeah, and maybe I can just take you
6 back a little further into the derivation of that
7 clause. The CFT, as is standard with most competitive
8 procurement processes, always had a right of excerpt
9 because we have to retain that, and it was
10 unspecified. I mean, no criteria, no caveats. When
11 we got the Commission letter in January 23rd, we
12 reviewed that direction and the direction to look at
13 smaller portfolios. Then we built that criteria into
14 the exit clause that we had already established. So
15 we actually defined it further.

16 As we progressed through the CFT process,
17 the independent reviewer's primary focus was on the
18 fairness and competitiveness of the process and as
19 we've noted in their March 11th report, they required
20 some prespecified decision roles about how within the
21 CFT process we would move between a Tier 1 and a Tier
22 2 award. So we did that and we confirmed that with
23 them and you can pursue their side of it in Panel 3.

24 MR. LEWIS: Q: Sure. And that was confirmed based on
25 competition and the lack of collusion.

26 MS. HEMMINGSEN: A: Right. As we've discussed just

1 with Green Island just now.

2 MR. LEWIS: Q: Sure.

3 MS. HEMMINGSEN: A: So that was the basis for them to
4 affirm that it was appropriate to move from Tier 1 to
5 Tier 2.

6 MR. LEWIS: Q: Okay, so maybe this is more appropriate
7 to Panel 4, but considering that you've said that
8 there was competition, considering you've said there
9 was no collusion, why did you move onto an evaluation
10 of Tier 2?

11 MS. HEMMINGSEN: A: The executive asked us, amid those
12 broader considerations that the Commission had pointed
13 to in the VIGP decision, and to make sure that the
14 outcome was consistent with that.

15 MR. SOULSBY: A: Just to be clear, we did not move in
16 onto Tier 2 within the context of the CFT process
17 itself. That was as part of the cost-effectiveness
18 analysis.

19 MR. LEWIS: Q: Thank you. Did you object to them doing
20 that?

21 MS. HEMMINGSEN: A: No. No, I thought it was entirely
22 appropriate.

23 MR. LEWIS: Q: Okay, do you think there was an element
24 of uncertainty to bidders that was instilled by them
25 doing that, as it wasn't provided for in the CFT.

26 MS. HEMMINGSEN: A: It was provided for in the CFT

1 because there was clause 17.3 which established that
2 there was a sole and unfettered discretion to B.C.
3 Hydro.

4 MR. LEWIS: Q: How much certainty is there in a sole
5 and unfettered discretion on undisclosed criteria?

6 MS. HEMMINGSEN: A: Well, it has to be exercised in
7 good faith and if we didn't exercise it in good faith
8 we'd be subject to legal claims.

9 MR. LEWIS: Q: Thank you. On to another subject, and
10 I'm going to be right on the outskirts here so don't
11 get your hackles up as soon as I mention ICP.

12 If ICP didn't have a security on the last
13 three years of its lease, and the Duke Point Power
14 project didn't have a secured fuel supply, why was one
15 compliant and the other not?

16 MS. HEMMINGSEN: A: If IC -- ICP didn't bid into this
17 process. ICP is an existing plant.

18 MR. LEWIS: Q: Oh, sorry, I'll say Calpine. Sorry.

19 MS. HEMMINGSEN: A: Okay, so Calpine's project?

20 MR. LEWIS: Q: Calpine's lease, it's been determined,
21 was three years short. They asked for a change to the
22 terms. Duke Point didn't have a secured fuel supply.
23 One is one considered compliant and the other not?

24 MS. HEMMINGSEN: A: Okay, just a couple of points.
25 First of all, Calpine submitted a non-compliant bid so
26 they conditioned their bid. They didn't ask us for a

1 change in the terms.

2 MR. LEWIS: Q: Yeah, I don't disagree with you on that.

3 **Proceeding Time 11:40 a.m. T43**

4 MS. HEMMINGSEN: A: So why was there -- and we've
5 explained why their bid wasn't considered. We didn't
6 have the opportunity to review and consider the
7 development risk or the inherent risk of that. So we
8 never had the opportunity in the confines of the CFT
9 process.

10 MR. ECKERT: A: The second part of that question
11 relates to Duke Point Power, and they tendered as a
12 tolling project, which meant that B.C. Hydro took on
13 the responsibility for providing gas to the plant.
14 Now we did, as part of our evaluation, what we did, we
15 would evaluate the tenders to make sure that the
16 tenders met all the mandatory criteria. Then on a
17 portfolio basis we would look at the development of
18 risk around the gas supply. So we did do a
19 development risk assessment on gas transportation, and
20 that was based on information that we were provided
21 with by actually a separate committee which was called
22 the Gas Team, and they outlined what the -- you know,
23 the series of contingency plans that we had around gas
24 supply, and we took that into our consideration,
25 debated that as part of our deliberations as to
26 whether or not we should disqualify a portfolio for

1 failing to meet the development risk on that basis.

2 So it was a fully compliant tender with
3 respect to gas supply because it was a tolling tender.

4 MR. LEWIS: Q: Thank you. I'll return to this.

5 Earlier, Ms. Hemmingsen, Mr. Bois alluded
6 that the contingency planning with regard to -- you
7 implied that you weren't doing any because you were
8 awaiting the CFT results, correct?

9 MS. HEMMINGSEN: A: I don't think I quite said that.

10 MR. LEWIS: Q: Okay. Can you --

11 MS. HEMMINGSEN: A: He was -- seemed to be asking
12 questions about why weren't we proceeding further. I
13 mean, we have some contingency plans, we've looked at
14 contingency options, and we have them shelf-ready to
15 pursue in the event that there is a decision that
16 disallows this Duke Point contract.

17 MR. LEWIS: Q: Okay, thank you. Now I don't have an
18 exhibit number handy. I'm sorry, I apologize. It's
19 the second piece of evidence. There was only two
20 submitted by the Village of Gold River. But it's on
21 the second page, the second piece of evidence. It's
22 an article from *The Cowichan*.

23 Sure, yeah, I'll wait. It's C5-6. Thank
24 you.

25 MS. HEMMINGSEN: A: Can I just take moment to have a
26 look at it?

1 MR. LEWIS: Q: Sure, of course. If you'd like I can
2 direct you exactly to what I'm going to speak to now.

3 MS. HEMMINGSEN: A: Okay, sure.

4 MR. LEWIS: Q: And that might make it easier. It's the
5 very last sentence on the second page.

6 MS. HEMMINGSEN: A: Okay. It's the quote at the end of
7 the second page?

8 MR. LEWIS: Q: Yes, that's correct.

9 MS. HEMMINGSEN: A: And what's the date of this?

10 MR. LEWIS: Q: The date is August 4th, I believe -- July
11 4th, I'm sorry.

12 MS. HEMMINGSEN: A: July 4th of 2004 or 3?

13 MR. LEWIS: Q: It would have been 2003.

14 MS. HEMMINGSEN: A: Yes, okay. So this article would
15 have appeared before we got the Commission decision in
16 September. So the Commission decision informed our
17 subsequent actions with respect to VIGP. And as we're
18 all aware, we created an option for the private sector
19 to acquire the VIGP assets.

20 MR. LEWIS: Q: Thank you. I'll move on.

21 Other than greenhouse gas requirements,
22 what measures has B.C. Hydro incorporated into the CFT
23 evaluation process with regard to environmental offset
24 costs?

25 MS. HEMMINGSEN: A: Well, once again that was informed
26 by the Commission's direction that we create a

1 simplified evaluation methodology, and they gave us
2 some direction on cost to include related to GHG
3 emissions for the VIGP benchmark. So on that basis
4 that's what we included.

5 I think another factor is that this was a
6 call for capacity, and that heavily flavoured the
7 product that we were looking for and the reliability
8 that we were looking for. So environmental factors
9 were not featured as prominently.

10 **Proceeding Time 11:45 a.m. T44**

11 MR. LEWIS: Q: Okay, so the answer would be, other than
12 greenhouse gas requirements, what measures has B.C.
13 Hydro -- so other than greenhouse gas requirements, so
14 there'd be none, other than greenhouse gas. Is that
15 correct?

16 MR. SOULSBY: A: Are you talking about within the
17 context of the mandatory criteria?

18 MR. LEWIS: Q: Well, within the evaluation. Within the
19 entire CFT process and the evaluation of projects --

20 MR. SOULSBY: A: Okay, well --

21 MR. LEWIS: Q: -- what measures other than greenhouse
22 gas requirements --

23 MR. SOULSBY: A: And I'm just clarifying, because I'm
24 not sure what you mean by "other than greenhouse gas
25 requirements", because there's no requirement for
26 greenhouse gas in the evaluation, that the liability

1 for greenhouse gases, as part of the EPA process and
2 the CFT process, is put to the bidders.

3 MR. LEWIS: Q: Correct.

4 MR. SOULSBY: A: So even that is not part of --

5 MR. LEWIS: Q: No, but it values that. And it does
6 place that risk, or that cost of those, to the bidder.

7 MR. SOULSBY: A: I need to clarify that.

8 MR. LEWIS: Q: Sure.

9 MR. SOULSBY: A: It does not value that in the
10 evaluation methodology itself. The benchmark, as Ms.
11 Hemmingsen said, includes a cost adder at the
12 Commission's direction, for GHG offsets.

13 MR. LEWIS: Q: Would it be fair, then, to say that each
14 bidder is responsible for the cost of greenhouse gas?

15 MR. SOULSBY: A: Yes.

16 MR. LEWIS: Q: Thank you. Do you feel that greenhouse
17 gas offsets are sufficient to mitigate all the
18 environmental impacts of a power project?

19 MR. SOULSBY: A: I'm sure that B.C. Hydro corporately
20 has a view on that, but that's really, I don't think,
21 part of the discussion, and I'm not prepared to
22 discuss that here today. What I am prepared to
23 discuss is, how greenhouse gases were treated in the
24 CFT process. And as we've just covered off, they were
25 put to the account of the bidders. So any GHG costs
26 that the bidders may have assumed that they might

1 incur would reasonably be expected to be built into
2 the tenders that they submitted.

3 MR. LEWIS: Q: I appreciate you not -- may not be
4 willing to discuss it, but I believe the environmental
5 costs as a whole are within scope. So my question,
6 then, I'll place it to Mary -- Ms. Hemmingsen, is, are
7 those the only costs that were factored in, or were
8 taken into account?

9 MS. HEMMINGSEN: A: Any change of law provisions were
10 on the account of bidders. So to the extent the
11 regulations change for other environmental issues,
12 that's the responsibility of the bidders. And as Ms.
13 Van Ruyven testified yesterday, I think it was, just
14 yesterday; that B.C. Hydro designed and structured
15 this CFT process prior to formulating the long-term
16 environmental objectives, and that on a going-forward
17 basis there may be broader consideration of how this
18 relates, but that's for future processes.

19 MR. LEWIS: Q: Thank you, I appreciate that answer.
20 Would a commitment from senior executives within Hydro
21 constitute a change of law?

22 MS. HEMMINGSEN: A: In terms of the bidders'
23 responsibility?

24 MR. LEWIS: Q: Yes.

25 MS. HEMMINGSEN: A: No.

26 MR. LEWIS: Q: Thank you.

1 MS. HEMMINGSEN: A: No, my understanding would be not.
2 MR. LEWIS: Q: Does it state anywhere in the EPA that
3 if environmental offset costs relating to this project
4 are required, that they will be Duke Point Power
5 Limited Partnership's sole responsibility?
6 MR. ECKERT: A: The EPA does address that, in Section
7 8.10(a), where it specifically says that the seller is
8 responsible for any greenhouse gas costs.
9 MR. LEWIS: Q: Correct, greenhouse gas costs. So I'll
10 try and make this clear. If you had a hydroelectric
11 project, are you saying because there's no greenhouse
12 gas implications, that there's no environmental
13 impact?
14 MR. SOULSBY: A: No, I don't think we're making that
15 claim.
16 MR. LEWIS: Q: Okay. So there may be environmental
17 impacts outside of greenhouse gas costs that are not
18 evaluated within this CFT process.
19 MS. HEMMINGSEN: A: That's right. As Mr. Soulsby just
20 related, the QEM process did not evaluate --
21 MR. LEWIS: Q: Thank you.
22 MS. HEMMINGSEN: A: -- any environmental impacts other
23 than may have been evaluated in the development risk
24 assessment, if permits were --
25 MR. ECKERT: A: Yeah, we did look to see whether or not
26 -- for example, in the EPA there is a requirement that

1 the seller adhere to the material permits. So they
2 are obligated to adhere to material permits. In the
3 development risk assessment, we would have looked at
4 whether or not it was likely that a proponent would be
5 able to receive permits within a schedule that would
6 allow them to meet the required in-service date.

7 MR. LEWIS: Q: Okay, thank you. I'll try and cut right
8 to the chase, then.

9 **Proceeding Time 11:50 a.m. T45**

10 Hydro senior management has stated new
11 commitments with regard to environmental impacts that
12 may extend beyond greenhouse gas emissions, that are
13 not a part of the CFT, will Duke Point Power, or are
14 they bound anywhere in this EPA to pay for those? Or
15 will those be the responsibility of ratepayers?

16 MS. HEMMINGSEN: A: Not unless they're related to a
17 change of law or legislation.

18 MR. LEWIS: Q: Thank you. Thank you very much.

19 This morning I heard that Duke Point Power
20 project is fully permitted, is that correct?

21 MS. HEMMINGSEN: A: Mr. Eckert?

22 MR. ECKERT: A: Yeah, Duke Point basically, in their
23 tender they stated that they had all material permits.
24 So any conditions in this agreement related to a
25 failure to receive material permits have been deleted.

26 MR. LEWIS: Q: Okay. Does B.C. Hydro have all material

1 permits required for this project?

2 MS. HEMMINGSEN: A: B.C. Hydro provided as part of the

3 VIGP assets that were made available to bidders a set

4 of permits in the share transfer.

5 MR. LEWIS: Q: You don't have a fuel supply contract

6 though, do you? Wouldn't that be similar to a permit?

7 Maybe I used the wrong word. Maybe I should change

8 that a little.

9 MS. HEMMINGSEN: A: Okay, a fuel supply, so you do mean

10 a gas commodity contract or a gas transportation --

11 MR. LEWIS: Q: No, the actual transportation and the

12 supply of it.

13 MS. HEMMINGSEN: A: Okay, and Mr. Simpson can speak to

14 that.

15 MR. SIMPSON: A: At the moment we don't have a gas

16 transportation contract but the indication is that we

17 can likely get one and we put a number of pieces of

18 information in the information request to indicate our

19 options in that regard.

20 MR. LEWIS: Q: Thank you. When you evaluated that,

21 what price did you use for that? How did you put a

22 price on it if you didn't in fact know how it was

23 going to be achieved?

24 MR. SIMPSON: A: Well, we did, as part of the

25 evaluation process, obtain information from Terasen

26 for all of the qualifying portfolios that involved gas

1 tolling projects, estimates of the tolls that would
2 apply over the period of the EPA and those were used
3 for evaluation purposes.

4 MR. LEWIS: Q: And that's simply one option, correct?
5 The Terasen option.

6 MR. SIMPSON: A: Yes, but we think it's probably the
7 most likely option. That it's most likely we will
8 contract for gas transportation with Terasen.

9 MR. LEWIS: Q: I apologize. Likely but not definitive.

10 MR. SIMPSON: A: Well, we think that it's probably --
11 if we elect to go with Terasen that it's almost
12 certain that we could have an arrangement with
13 Terasen. Now, whether there might be something better
14 that comes along, either by 2007 or after 2007, that's
15 an open question.

16 MR. LEWIS: Q: Have you got a commitment on price from
17 Terasen Gas that they can't back out of?

18 MR. SIMPSON: A: We don't have a commitment that they
19 can't back out of, no. We have their best estimates
20 of the tolls that would apply.

21 MR. LEWIS: Q: Okay, thank you. If you approve this
22 EPA, what leverage do you have, given GSX is dead, to
23 fairly secure a price for fuel transport?

24 MS. HEMMINGSEN: A: Well, Terasen is a regulated
25 entity, so they need to bring the toll in front of the
26 Commission for their review and approval and any

1 material differences between B.C. Hydro and Terasen on
2 that front would be aired and considered in that
3 decision.

4 MR. LEWIS: Q: It just seems that we talk about
5 uncertainty and yet when it comes to an unsigned
6 contract to supply fuel at an undefined rate, it's
7 cast aside as no big deal.

8 MS. HEMMINGSEN: A: Yeah, and I guess in terms of our
9 assessment of uncertainties and our confidence on
10 certain inputs we look at the range of alternatives
11 that we have. As Mr. Simpson outlined, and I think
12 there's various IRs, we are satisfied that there is a
13 number of infrastructure options available to Terasen
14 or even measures beyond that available to us in the
15 range of prices that Terasen provided. So we're
16 confident that we can achieve that gas transportation
17 at that price, and further, we are confident that
18 process exists where we can air any differences and
19 get them resolved.

20 MR. LEWIS: Q: Thank you. Did B.C. Hydro retain the
21 right to cancel this EPA if it cannot supply gas at
22 the cost it projected?

23 MR. ECKERT: A: No, there's no such right in the
24 contract.

25 MR. LEWIS: Q: Thank you. Mr. O'Riley, I'd like to
26 revisit a comment that you made yesterday and correct

1 me if I'm wrong when I -- I'll try and restate it
2 accurately. The comment was about alternative fuel
3 supplies for thermal projects specifically using wood
4 waste. I believe you stated something along the lines
5 that the assumption was that most of the types of
6 projects had access to their own fuel supply, and that
7 therefore negated their fuel supply risk.

8 **Proceeding Time 11:55 a.m. T46**

9 MR. O'RILEY: A: Yeah, I think the way I characterized
10 it was that coal projects and wood waste projects are
11 typically developed by proponents with access to their
12 own fuel supply. And the examples I gave were mine-
13 mouth coal fire generation and hog fuel, wood waste
14 burners within integrated pulp and paper mills.

15 MR. LEWIS: Q: Okay, so the fact that B.C. Hydro was
16 taking on the fuel supply risk in terms of
17 transportation for gas plants was really irrelevant
18 because they were both risk neutral. Would that be a
19 correct assumption?

20 MR. O'RILEY: A: Sorry, I'm not sure I understand that.

21 MR. LEWIS: Q: Well, what I think is there's a risk
22 associated with this unsigned contract to supply.
23 Whether it's big or small, there's a risk. Now, I
24 believe you said that these other projects are also
25 risk neutral because they supply their own, so it's a
26 level playing field. Would that be a correct

1 characterization?

2 MR. O'RILEY: A: Well, I think the important point that
3 Ms. Hemmingsen and Mr. Simpson made is that we did an
4 assessment of the gas transportation risk and looked
5 at the probability and the consequences of various
6 outcomes and felt that we could live with that risk.

7 MR. SIMPSON: A: I think I'd add something, you know.
8 Terasen has recently concluded a proceeding with the
9 Commission over its proposed liquefied natural gas
10 expansion of its system, and it's put a lot of
11 evidence on the record in terms of what it will cost
12 to expand its system to meet the requirements of the
13 Duke Point project. And we think, based on that
14 evidence and the information that they provided in
15 respect of the tolling, that it's pretty clear that
16 any tolling payments that B.C. Hydro would make for
17 the Duke Point project to Terasen will more than cover
18 the expansion costs of their system.

19 So there's a very low risk there that there
20 will be some unexpected costs that come along with
21 respect to supplying gas to the Duke Point project.

22 MR. LEWIS: Q: Thank you, I appreciate your candour.

23 MR. O'RILEY: A: And I'd just sort of add, if I could,
24 that there's a -- we were talking about the gas
25 transportation costs versus the commodity, so that's a
26 -- I was preparing more the gas commodity risk as

1 opposed to the hog fuel or coal.

2 MR. LEWIS: Q: Sure, right now I'm simply dealing with
3 the transportation risk of supply in terms of
4 providing it.

5 So I've heard that it's a low risk and I've
6 heard that we're willing to live with that. So was
7 that risk evaluated in the process in any manner?

8 MR. ECKERT: A: Can you refer to the specific risk
9 you're talking about?

10 MR. LEWIS: Q: Having a fuel transportation contract in
11 place that says, "We can provide this gas to you."
12 Not the price risk but just supplying the gas.

13 MR. ECKERT: A: We did evaluate the development risk
14 around gas transportation on a portfolio basis,
15 because we were -- for those plants, for those gas
16 plants which elected tolling, so we did do a
17 development risk assessment for that. We also did a
18 fuel assessment for non-gas plants where we looked at
19 the fuel supply and the transportation arrangements a
20 potential proponent would utilize, and looked at that
21 to see what the risk was associated with that, with
22 fuel supply for non-gas plants.

23 MR. LEWIS: Q: Sure. But there was no risk premium
24 established for those that didn't require that service
25 from Hydro. The alternative users of wood and whatnot
26 that didn't require you to take that risk on, there

1 was no premium to them for that.

2 MS. HEMMINGSEN: A: So we're talking about gas as a
3 commodity?

4 MR. LEWIS: Q: No, the supply.

5 MS. HEMMINGSEN: A: The supply.

6 MR. LEWIS: Q: We've heard that there is a risk
7 associated with the supply. It may be low but you're
8 willing to take that on. So where was that evaluated
9 for projects that didn't need that?

10 MS. HEMMINGSEN: A: I guess it was evaluated in terms
11 of the assessment of the low risk of taking on the gas
12 transportation in the absence of the contract, and we
13 deemed that there wasn't a basis to have any sort of
14 premium. I mean, you can talk about a premium or you
15 can talk about a discount, so --

16 MR. LEWIS: Q: Sure, either/or, correct, but there was
17 none.

18 MS. HEMMINGSEN: A: There was none, no.

19 MR. LEWIS: Q: Thank you.

20 Mr. O'Riley, do you know if Green Island
21 Energy produces its own wood waste?

22 MS. HEMMINGSEN: A: I'm not aware of that.

23 MR. LEWIS: Q: If they didn't and they had to secure it
24 from someone else, that would eliminate that risk
25 neutral position, wouldn't it?

26 MR. ECKERT: A: Yeah, I think that's -- I'm not sure

Proceeding Time 12:00 p.m. T47

1 MS. HEMMINGSEN: A: Not necessarily, no. I mean, it's
2 conceivable that projects that have to source their
3 own fuel have an advantage over those that have to
4 secure it at market prices.

5 MR. LEWIS: Q: Why didn't B.C. Hydro offer to supply
6 their fuel for them, then?

7 MR. O'RILEY: A: I can answer that. I mean, B.C. Hydro
8 has no experience or capability supplying wood waste.
9 There's also -- it doesn't seem to be any ready market
10 for acquiring it on a spot-market basis or a forward-
11 market basis, as there is for natural gas.

12 MR. LEWIS: Q: So where you had some background, you
13 supplied that service without taking on any cost --
14 without assessing any cost for that. But for others
15 where you didn't, you didn't offer that service?

16 MR. O'RILEY: A: Yeah. Well, I -- yeah, I think the
17 gas risk is something worth sort of talking about in--

18 MR. LEWIS: Q: I'm not talking about gas risk yet.
19 Just --

20 MR. O'RILEY: A: Well I think you are, actually. I
21 think you're -- you're talking about B.C. Hydro being
22 willing to take on the gas risk in the CFT, and not
23 take on risk of other commodities.

24 MR. LEWIS: Q: Well then I'll clarify. There's a
25 difference between buying gas and then getting it to
26 the plant. There's a difference between buying wood

1 waste and getting it to the plant.

2 MS. HEMMINGSEN: A: Yeah.

3 MR. LEWIS: Q: So -- am I correct?

4 MR. O'RILEY: A: So are we talking -- we can talk about

5 transportation --

6 MR. LEWIS: Q: Yes.

7 MR. O'RILEY: A: -- we can talk about the commodity

8 itself. Either one.

9 MR. LEWIS: Q: I'm strictly talking right now about

10 transportation. I will get to the fuel price

11 escalator.

12 MR. O'RILEY: A: Okay.

13 MR. LEWIS: Q: But as far as just transportation, you

14 did not offer that service to alternative suppliers,

15 that were proposing other alternative fuels.

16 MS. HEMMINGSEN: A: And once again, it relates to what

17 I outlined before in terms of gas transportation

18 service as a regulated service, we were confident that

19 we had the channels to pursue to address any

20 differences that we might have. Whereas with ships

21 and --

22 MR. LEWIS: Q: I'll move on.

23 MS. HEMMINGSEN: A: -- terminals, and everything else,

24 we didn't have the same situation.

25 MR. LEWIS: Q: I'll move on.

26 THE CHAIRMAN: Mr. Lewis, do you have very many more

1 questions?

2 MR. LEWIS: I do.

3 THE CHAIRMAN: Let's take our break. We'll break until
4 1:30.

5 MR. LEWIS: Thank you.

6 **(PROCEEDINGS ADJOURNED AT 12:03 P.M.)**

7 **(PROCEEDINGS RESUMED AT 1:31 P.M.)** **T48**

8 THE CHAIRMAN: Please be seated.

9 Mr. Sanderson?

10 MR. SANDERSON: Mr. Chairman, just a couple of follow-ups
11 from this morning that may assist Mr. Lewis and Mr.
12 Weisberg. There was a couple of questions left we
13 said we'd check on.

14 The first was -- I think this is in
15 response to Mr. Weisberg, to respond to his question
16 as to where in the CFT it said that non-conditioned --
17 only non-conditioned bids would be accepted. And Ms.
18 Hemmingsen, have you had a chance to review the CFT
19 and elaborate on that?

20 MS. HEMMINGSEN: A: We have, and Mr. Eckert is going to
21 speak to that. And the other document we have also
22 located is the bidder tender workshop, where we
23 outlined to bidders that there was no footnotes,
24 conditions, caveats or riders allowed in terms of
25 conformity. So we can pass that extract from those
26 bidder workshop --

1 MR. SANDERSON: Q: Okay, you're running ahead of me,
2 but that's fine. I will come and get that while Mr.
3 Eckert responds to my first question.

4 MR. ECKERT: A: Yeah. I refer to Exhibit B-1, Appendix
5 B, which is the actual CFT document. And I refer to
6 Section 10.4 on page 11 of that document. And it says
7 "final" -- the section is titled "Final Form
8 Agreements, Non-Negotiable". And it continues:

9 "The final form agreements, including
10 amendments made by B.C. Hydro in accordance
11 with the process described in Sections 9.5,
12 10.2 and 10.3, are not negotiable. Tenders
13 must be based on these forms and will
14 constitute binding and irrevocable offers by
15 bidders to execute and deliver within the
16 time specified in the tender form the final
17 form agreements, as so amended together with
18 the development of security and other
19 securities specified therein, completed only
20 with the relevant prices and project-
21 specific information contained in the
22 tender."

23 So that is section 10.4.

24 **Proceeding Time 1:33 p.m. T1A**

25 The other section that touches this issue
26 is section 18.17 and it deals with non-compliant

1 tenders, and it states that:

2 "All tenders that are incomplete in any
3 material respect, or that contain material
4 amendments, modifications or conditions that
5 are not authorized by the CFT, including
6 amendments, modifications or conditions to
7 the specified form of tender or final form
8 agreements, or that otherwise do not conform
9 in a material respect to the requirements of
10 the CFT, will be rejected. B.C. Hydro
11 reserves the right to accept or reject in
12 its discretion, tenders that contain non-
13 material emissions, amendments,
14 modifications or conditions, or that
15 otherwise do not conform to the requirements
16 of the CFT where such a non-conformity is
17 not material. B.C. Hydro has the discretion
18 to determine what constitutes a material
19 omission, amendment, modification,
20 condition, or non-conformity.

21 MR. SANDERSON: Q: Thank you, Mr. Eckert. And now, Ms.
22 Hemmingsen, you described a document which I'm now
23 going to get marked, which I think you just said was
24 minutes from the bidders' tender workshop of the 7th of
25 July 2004. And if I can get that marked as the next
26 exhibit.

1 MS. HEMMINGSEN: A: Just a correction. I think these
2 were the presentation slides that were made at that
3 bidder's workshop.

4 MR. SANDERSON: Q: All right, thank you.

5 MR. FULTON: In terms of numbers, I think, Mr. Chairman,
6 I know that we have an updated list. I believe that
7 number should be B-56. And I'll check that with the
8 Hearing Officer for the updated exhibit list that, as
9 I understand it, incorporates the exhibits that were
10 filed prior to today.

11 **Proceeding Time 1:35 p.m. T02A**

12 MR. SANDERSON: Q: Ms. Hemmingsen, I wonder if you
13 could just take the panel to the particular reference
14 that you're making to what is now Exhibit B-56.

15 MS. HEMMINGSEN: A: Sure. It's on slide 77, which is
16 attached, and it speaks to conformity requirements,
17 and it's the third bullet point relating to
18 conformity, where it establishes under the sub-bullet
19 point -- no footnotes, conditions, caveats or riders.
20 And then goes on to identify material non-conformity
21 equals rejection.

22 MR. SANDERSON: Q: Thank you. And I'm advised, and
23 maybe you can confirm, that this -- these workshops
24 were available on Hydro's website during the bidding
25 process?

26 MS. HEMMINGSEN: A: The notification of the workshops?

1 Or the materials for the workshops?

2 MR. SANDERSON: Q: The materials for the workshop, are
3 you aware of whether they were posted?

4 MS. HEMMINGSEN: A: The materials for the workshops
5 were posted on our website after the workshops were
6 held, and all bidders were required to attend these
7 workshops --

8 MR. SANDERSON: Q: Thank you.

9 MS. HEMMINGSEN: A: -- as a condition of the CFT.

10 MR. SANDERSON: Q: Thank you.

11 MR. FULTON: And just to correct the exhibit number, Mr.
12 Chairman, that should be Exhibit B-60. And there will
13 be an updated list available for everyone some time
14 early this afternoon.

15 THE HEARING OFFICER: Exhibit B-60.

16 (EXTRACT FROM "VANCOUVER ISLAND CALL FOR TENDERS,
17 BIDDERS' TENDER WORKSHOP, 7 JULY 2004", MARKED AS
18 EXHIBIT B-60)

19 THE CHAIRMAN: Mr. Lewis, you may proceed

20 MR. LEWIS: Thank you very much.

21 **CROSS-EXAMINATION BY MR. LEWIS (Continued):**

22 MR. LEWIS: Q: My first question is for Mr. O'Riley.
23 Did B.C. Hydro recently apply to the Utilities
24 Commission to approve deferral accounts?

25 MR. O'RILEY: A: B.C. Hydro applied to the Commission
26 during the revenue requirement for a number of

1 deferral accounts.

2 MR. LEWIS: Q: Were those accounts to be established to
3 help eliminate the impacts that the cost of gas price
4 risk, among other factors, could have on annual
5 revenues?

6 MR. O'RILEY: A: What the deferral accounts did, and
7 there's really two that relate to that; there's a
8 heritage deferral account and a non-heritage energy
9 deferral account. And what those allow us to do is
10 carry forward variances between the forecast and
11 actual energy costs, subject to some exceptions around
12 the load forecast and variability around that, to
13 future years. And the idea is that the gains and
14 losses over time, positive and negative variances over
15 time, will tend to cancel one another out.

16 MR. LEWIS: Q: Okay, thank you. Is there any cost to
17 the ratepayer of having these deferral accounts or
18 using them?

19 MR. O'RILEY: A: There is a financing cost to the
20 ratepayer. If there's a negative balance we're
21 carrying forward, there's an interest cost that's
22 borne. I think it's our average debt cost that
23 accrues to the account. And at a certain point, with
24 a -- when the balance reaches -- well, an unspecified
25 amount, either party, either B.C. Hydro or ratepayer
26 group, could apply to have those accounts cleared and

1 have the difference factored into rates over time.

2 MR. LEWIS: Q: Thank you. How are these financing
3 charges or costs associated with deferral accounts
4 factored into the QEM?

5 MR. O'RILEY: A: They are not factored into the QEM.

6 MR. LEWIS: Q: Thank you.

7 Were there any reputable forecasts of gas
8 price that were lower than the one you used, the EIA,
9 I believe it's called?

10 MR. O'RILEY: A: We've looked at a range of gas prices,
11 and we've put forward one lower gas forecast, which
12 we've talked about in various regulatory proceedings,
13 and that's produced by a company called Confer in
14 Alberta. And that's certainly lower. That forms the
15 lower bound of our official B.C. Hydro gas price
16 forecast. The EIA is the middle bound, and we have a
17 high gas forecast as well, which we've talked about in
18 BCUC 1.13.1.

19 MR. LEWIS: Q: Okay, thank you. Now I'm not
20 tremendously familiar with this --

21 MR. O'RILEY: A: Okay.

22 MR. LEWIS: Q: -- so please feel free to correct me as
23 I go forward, but I guess where I'm going is, if a
24 proponent of a gas project felt that the gas forecast
25 used by B.C. Hydro was in fact high, they would have
26 benefited by assuming the fuel supply risk, wouldn't

Proceeding Time 1:40 p.m. T3A

24 MR. O'RILEY: A: Yeah, I think it's -- well, I think
25 it's difficult for me to look into their own -- I
26 mean, they're making their own assessments of risk

1 and their own options. I think it's difficult for me
2 to --

3 MS. HEMMINGSEN: A: I guess it goes back to the design
4 criteria around the CFT, and we had a number of
5 objectives. One of the objectives was a cost-
6 effective outcome. And this was considered in terms
7 of balancing the risks amongst the IPPs and B.C. Hydro
8 to produce a cost-effective outcome, and that's
9 something that we actively consider in designing a
10 contract, so that it's an appropriate risk allocation.
11 I do believe there's a couple of IRs that speak to
12 that issue and how we balance those risks.

13 MR. LEWIS: Q: Thank you. I appreciate your candour
14 because --

15 MR. ECKERT: A: Can I just add one more comment? I
16 guess to the extent that a tender has come in as a
17 dispatchable tender, I think it's particularly
18 difficult to manage that risk as a proponent if you
19 don't know what your capacity factor is, so you don't
20 even know how much you're going to run over time. So
21 I think that may also -- I don't know whether it
22 factored into this particular bidder's strategy, but I
23 think that would generally impact the likelihood of a
24 bidder taking that risk.

25 MR. LEWIS: Q: Thank you.

26 With regard to the comment you just made,

1 Ms. Hemmingsen, that you were looking to balance this
2 risk to help with the CFT process, that was simply for
3 the gas price or for the gas-fired projects, correct?
4 MS. HEMMINGSEN: A: No, it was overall in the design of
5 the CFT so that we would ensure it would produce a
6 cost-effective outcome. So what we want to do is
7 consider what party is best able to take the risks in
8 terms of producing a lower-cost outcome.
9 MR. LEWIS: Q: By offering to balance this risk,
10 doesn't that imply that you're providing a benefit to
11 the person that you're doing it for?
12 MS. HEMMINGSEN: A: No, because I think it's an overall
13 assessment in terms of all of the terms and conditions
14 of the CFT. And to serve the ratepayers, we need to
15 make sure that that overall balance is correct.
16 MR. LEWIS: Q: But that overall balance you speak of
17 only applies to gas-fired plants, correct?
18 MS. HEMMINGSEN: A: No, I don't think it does only
19 apply to gas-fired plants.
20 MR. O'RILEY: A: I think it's important to see this
21 sort of allegation of gas risk bias really does cut
22 both ways. And we've talked a lot this morning about
23 this subset of bidders, and these are the 47 megawatt
24 peaking projects, and these projects typically have
25 higher heat rates and wouldn't be expected to dispatch
26 very often. And requiring them to provide a fixed

1 price power would have made it very difficult for them
2 to bid into the CFT. And the reason for that, as Mr.
3 Eckert alluded to, it's very difficult to buy gas for
4 25 years where the volume -- or the price is fixed but
5 the volume varies depending on when B.C. Hydro calls
6 on the associated power.

7 So as we did talk about this morning, these
8 assets, these potential bidders played an important
9 role in forming a non-VIGP-based portfolio, 150
10 megawatt portfolio. And we talked a lot this morning
11 about, you know, if we had one more we might have
12 created a different portfolio and what that would have
13 meant.

14 So arguably there is a benefit conferred on
15 other projects in the process that weren't necessarily
16 gas-fired projects. So I think it does, you know, cut
17 both ways --

18 MR. LEWIS: Q: Yeah, thank you, I understand what
19 you're saying and I do agree that that could have
20 provided more solutions or more portfolios. It
21 didn't. But what it did do was it took some of that
22 risk or uncertainty away from those projects that were
23 going to use gas to fuel their generator.

24 **Proceeding Time 1:45 p.m. T04A**

25 MR. O'RILEY: A: Yeah, yeah, I guess I'd go a little
26 further and I'd say it didn't prevent -- if we had

1 required those small projects to be fixed-price, I
2 would argue it would have prevented them from
3 participating, and it would have, in fact, eliminated
4 portfolios.

5 MR. LEWIS: Q: And how many of those small projects did
6 you evaluate?

7 MS. HEMMINGSEN: A: Oh, there was two that were bid-in
8 and, as we've discussed this morning, there was one
9 that was rejected for non-conformity.

10 MR. LEWIS: Q: Correct. So you only evaluated one.

11 MS. HEMMINGSEN: A: Correct.

12 MR. LEWIS: Q: Thank you.

13 MS. HEMMINGSEN: A: But I think the point is that it
14 allowed for those two projects to bid-in.

15 MR. SANDERSON: Just for the record, the witness said two
16 and Mr. Lewis said one. I'm not sure which is right.

17 MR. LEWIS: Q: I believe what I was looking for is, Ms.
18 Hemmingsen said two bid-in but only one was evaluated.

19 MS. HEMMINGSEN: A: Yeah, that's right.

20 MR. LEWIS: Q: Ms. Hemmingsen, when you stated
21 yesterday that there's no credible market price
22 forecast for the long term, can I just make sure
23 that's -- is that accurate to what you said?

24 MS. HEMMINGSEN: A: No, I think I corrected myself --

25 MR. LEWIS: Q: Okay.

26 MS. HEMMINGSEN: A: -- on that one. B.C. Hydro doesn't

1 see a credible forward price for the long term.

2 MR. LEWIS: Q: Okay. And no bidder opted to accept the
3 gas price risk, given that assumption as well,
4 probably.

5 MS. HEMMINGSEN: A: I'm not sure that we can make that
6 link.

7 MR. LEWIS: Q: So I guess the question is, why is it
8 prudent for B.C. Hydro to take on this gas price risk
9 on behalf of its ratepayers if the proponents aren't
10 willing to?

11 MS. HEMMINGSEN: A: Well, I think Mr. O'Riley can speak
12 to some of the considerations around that.

13 MR. O'RILEY: A: Yeah. I mean, we've alluded to a
14 number of these over today and yesterday, and there
15 are markets for gas, spot and forward markets in B.C.
16 which make it possible to acquire gas from multiple
17 sellers and make it possible to manage or mitigate the
18 risks on those -- on that commodity. And that's not
19 something that we've conferred, that's not an
20 advantage that we've conferred onto gas, that's a --
21 it's been conferred onto gas-fired generation by the
22 role that gas plays in our economy, and the production
23 and transportation and distribution infrastructure,
24 and market infrastructure that's grown up over time.

25 MR. LEWIS: Q: Sure, I can appreciate that. Thank you.

26 MR. O'RILEY: A: Yeah.

1 MR. LEWIS: Q: You used the word "mitigate". You
2 didn't use the word "eliminate".

3 MR. O'RILEY: A: I have not used the word "eliminate".
4 I think we made that clear in a number of IR requests.

5 MR. LEWIS: Q: Okay. Thank you.

6 With regard, Mr. O'Riley, to a response you
7 gave yesterday, regarding there being no options or
8 alternatives provided to the EIA forecast by B.C.
9 Hydro with regard to, I believe it was an article by
10 Weisman, and you stated, "Well, he doesn't provide any
11 alternatives either, when he was critical of it." It
12 would -- can you just give me the context of that?

13 MR. O'RILEY: A: Yeah. Well, the article was critical
14 about relying -- utilities relying on economic
15 forecasts to make large energy infrastructure
16 decisions. And my -- one of my comments, in response
17 to that, and my read of the article was, that he's --
18 he was critical of what utilities were doing, but
19 didn't offer them an alternative to use instead.

20 MR. LEWIS: Q: Sure. Sure. Would making the proponent
21 carry the risk be an alternative?

22 MR. O'RILEY: A: It would be an alternative, but it may
23 also have led to higher costs, and eliminated a number
24 of bidders from the process, resulting in an -- which
25 potentially could have resulted in an uncompetitive
26 process. Certainly would have eliminated the

26 MR. LEWIS: Q: Thank you. With regard to what Mr.

1 O'Riley just said about the difficulty in assigning
2 penalties, there are penalties established within the
3 CPA for other causes, are there not?

4 MR. ECKERT: A: Well, there are penalties in the EPA
5 with respect to items that the bidder has control
6 over, yes.

7 MR. LEWIS: Q: And if Duke Point Power doesn't meet its
8 reliability standards, they can be penalized, correct?

9 MR. ECKERT: A: Yes they can.

10 MR. LEWIS: Q: But that really doesn't solve the
11 ratepayer's problem of needing the capacity then, does
12 it?

13 MR. ECKERT: A: Well, there are a number of measures
14 that are included in this contract that give us a high
15 degree of confidence that they're going to perform,
16 and I can walk you through those if you like. I mean,
17 it starts with the evaluat- --

18 MR. LEWIS: Q: I'll accept your assertion.

19 MR. ECKERT: A: Okay.

20 MR. LEWIS: Q: Just for the expediency, I'll accept
21 that --

22 MR. ECKERT: A: Sure.

23 MR. LEWIS: Q: -- that the penalties can be applied to
24 provide that capacity. Would that be a fair --

25 MR. ECKERT: A: The penalties applied to incent high
26 performance.

1 MR. LEWIS: Q: Okay, thank you. So those penalties are
2 not so much a means to fixing a problem, but rather
3 they act as, as you said, an incentive to ensure the
4 problem doesn't arise.

5 MR. ECKERT: A: Right, they do, and then to the extent
6 that -- for example, if their availability were to
7 fall below 80 percent on a 12-month rolling basis, it
8 would give rise to a termination event. And if a
9 termination event were to -- if B.C. Hydro were in a
10 position where it was allowed to terminate the
11 contract, we have other options available to us at
12 that point including stepping in and actually
13 operating the plant ourselves.

14 MR. LEWIS: Q: Sure, thank you. If a schedule had been
15 provided that allowed for a penalty if B.C. Hydro had
16 to operate the plant when gas price exceeded the
17 forecast, that would have increased their bid cost,
18 would it not?

19 MR. ECKERT: A: Well, it would be an additional risk
20 that the bidders would have had to take into account.

21 MR. LEWIS: Q: Thank you.

22 MR. O'RILEY: A: I'm not sure what kind of behaviour
23 we'd be trying to incent with that clause as opposed
24 to some of the clauses Mr. Eckert described.

25 MR. LEWIS: Q: I think, although I'm asking the
26 questions, I'll answer your question. I think that

1 what we're talking about is having penalties to fix
2 the problem. We see a problem that, you know, they
3 may not provide the reliability, so we put a penalty
4 in to create a disincentive so that problem doesn't
5 arise. In this case we have a problem about gas price
6 risk. And what we want to do is evaluate what's the
7 best means to provide power at a least cost method.
8 If we don't evaluate that risk, how do we then say we
9 got the least cost?

10 So a penalty is a means of saying, "We're
11 not going to solve the problem but we're going to
12 factor in what that cost is."

13 MS. HEMMINGSEN: A: I guess there's sort of two
14 elements of what you're outlining. One relates to a
15 reliable supply, and the second relates to the cost of
16 that supply. So on the reliable supply front, not
17 only is there penalties to incent them to deliver
18 reliable supply, there is also an entire process to
19 assess their ability to be on time, their technical
20 capabilities, their operating history. So throughout
21 the CFT process, all of those assessments and
22 mechanisms were used to assure that we selected the
23 proponent that was most able to meet that dependable
24 capacity requirement.

25 MR. LEWIS: Q: I don't disagree, and I use the
26 reliability just as a means, as an example to show

1 that you did have penalties to achieve that. But what
2 you don't have is penalties to fix the problem of gas
3 price risk.

4 MR. ECKERT: A: Well, I think we do have certain
5 rights. We do have rights under the contract to
6 dispatch it. It was tendered as a dispatchable
7 tolling plant, and as such we do have the option of
8 running it less if we choose to, and that we could do
9 that in response to market conditions for gas and
10 electricity.

11 MR. LEWIS: Q: Okay, just for quick clarification, the
12 number that was used before was about 81 and a half
13 percent operability, I believe, for the plant.

14 MR. ECKERT: A: I think that's the right number
15 referenced.

16 MR. LEWIS: Q: Okay.

17 MR. ECKERT: A: And I think that's in an IR.

18 MR. LEWIS: Q: Now, I'm also not particularly clear,
19 I've heard two numbers, but the baseload capacity is
20 90.5 percent or 92 percent, would that be correct, as
21 far as the availability of the unit?

22 MR. ECKERT: A: Well, the unit -- the plan itself,
23 there's a requirement that it be available in that it
24 is capable of operating at the direction of B.C. Hydro
25 97 percent of the hours, when it's not being -- when
26 it's not undergoing scheduled maintenance. So that's

1 the 97 percent.

2 The 81 percent is the expected -- is, I
3 believe, the expected utilization of the plant.

4 **Proceeding Time 1:55 p.m. T06A**

5 MR. ECKERT: A: The 81 percent is the expected -- is, I
6 believe, the expected utilization of the plant.

7 MR. LEWIS: Q: Right. So -- sorry, go ahead, Mr.
8 Soulsby, you had something to add?

9 MR. SOULSBY: A: I was just going to refer -- the 92
10 percent that I think you're referring to comes from an
11 IR where we make the statement that for these types of
12 machines, on average, we would expect to see about a
13 five percent reduction in availability due to
14 scheduled maintenance.

15 MR. LEWIS: Q: Sure. So where I'm going is if the
16 machine is down for eight percent of the time for
17 maintenance and scheduled maintenance, really your
18 opportunistic dispatch, if you're using 81 and a half
19 percent overall, if you do the math, I came up with
20 88.4 percent of the time it has to run when it's not
21 undergoing maintenance, to achieve that 81 and a half
22 percent.

23 MR. ECKERT: A: It is required to operate at a 97 per
24 -- well, there are penalties if it does not achieve a
25 97 percent availability in any period where it's not
26 undergoing scheduled maintenance. And that would

1 determine the cost-effectiveness of 150 megawatt
2 portfolio but not a 122 megawatt portfolio?

3 MR. SOULSBY: A: No.

4 MR. LEWIS: Q: Thank you.

5 Sorry, I'm just moving through questions
6 that have been asked and answered already, to try and
7 move --

8 THE CHAIRMAN: Thank you.

9 MR. LEWIS: Q: If there were a qualified portfolio of
10 151 megawatts, B.C. Hydro would have used the QEM to
11 evaluate it under the rules of the CFT, would they
12 not?

13 MR. SOULSBY: A: Yes.

14 MR. LEWIS: Q: With regard to the QEM, the capacity
15 nature of it separates the capital costs of the
16 project from the variable costs, correct?

17 MR. SOULSBY: A: That's correct.

18 MR. LEWIS: Q: With regard to the 25 percent capital
19 cost recovery threshold used in one of the electricity
20 price forecasts, can you just tell me the logic behind
21 using 25 percent as the lower limit?

22 MR. SOULSBY: A: I think I'll let Mr. O'Riley answer
23 that question --

24 MR. O'RILEY: A: Yeah.

25 MR. SOULSBY: A: -- because it really comes from --

26 MR. LEWIS: Q: Yeah, sorry, I switched over to whoever

1 on the panel. I appreciate that.

2 MR. O'RILEY: A: Previously, when we've traditionally
3 done price forecasting, we looked at using the Henwood
4 model for a number of years, and then we shifted to
5 this proxy of a natural gas-fired CCGT at 100 percent
6 recovery of the cost. And one of the concerns we had,
7 particularly coming out of the VIGP hearing, is we
8 needed to test that. So we looked a bunch of
9 different -- a number of different alternatives
10 including examples like a steady percentage
11 improvement in market heat rates over time, or we
12 looked at taking the current low heat rate and
13 extending that through time, and we landed on the 25
14 percent recovery, the exact number being somewhat
15 arbitrary, but it provided a good range of heat rates
16 for evaluation of decisions. And it's important to
17 note that this is a really -- a separate process. Our
18 price forecasting is completely separate from --

19 MR. LEWIS: Q: Sure.

20 MR. O'RILEY: A: -- the evaluation of the CFT bids.

21 MR. LEWIS: Q: Correct. And this may knock off a whole
22 bunch of questions, because I may be incorrect in my
23 assumption here.

24 **Proceeding Time 2:00 p.m. T7A**

25 So the 25 percent cost recovery doesn't
26 allude to the fact that that is the lowest threshold

1 at which an operator will provide power, you know,
2 they won't go below that limit.

3 MR. O'RILEY: A: No, recall -- we did say -- I think I
4 said yesterday that the 25 percent recovery case could
5 occur from any number of outcomes, including an
6 oversupply, change in technology, more efficiency,
7 efficiency improvements in the existing --

8 MR. LEWIS: Q: Okay.

9 MR. O'RILEY: A: So it's just a proxy for a lower
10 market price.

11 MR. LEWIS: Q: Okay, thank you. That helps me out.
12 I'll move forward.

13 Question to Ms. Hemmingsen: In acquiring
14 permits, land and assets from VIGP or for VIGP, did
15 B.C. Hydro operate in a fiscally responsible,
16 efficient and prudent manner?

17 MS. HEMMINGSEN: A: I'm not sure what context you're
18 speaking to. And I wasn't personally involved with
19 B.C. Hydro's acquisition of those permits.

20 MR. LEWIS: Q: Well, I'll give you the end question and
21 then you can work back from there.

22 MS. HEMMINGSEN: A: Okay.

23 MR. LEWIS: Q: If the developer is being credited for a
24 \$50 million expenditure, why are they being credited
25 for that if they're assets that they would have
26 otherwise had to expend themselves to move the project

1 forward?

2 MS. HEMMINGSEN: A: So you're asking a question about
3 the basis for valuing the VIGP assets and then
4 establishing a credit to --

5 MR. LEWIS: Q: Well, I'd like to know if they're -- you
6 know, the costs, were they prudently acquired, which I
7 believe they were?

8 MS. HEMMINGSEN: A: Okay.

9 MR. LEWIS: Q: And were they required for this Duke
10 Point project? And if they were required, why are
11 they then credited with purchasing equipment that's
12 required?

13 MS. HEMMINGSEN: A: Okay, I understand your question
14 now. So the VIGP assets consist of a bundle of hard
15 assets and what's called soft assets. So there's a
16 steam turbine and a number of permits and development
17 costs.

18 MR. LEWIS: Q: I'm aware of them. Thank you.

19 MS. HEMMINGSEN: A: And those have value either in use
20 or in salvage. So what we did is we made that asset
21 bundle available to bidders at their option to
22 acquire, and they in acquiring that would have to
23 reflect the price of the assets, which we established
24 a market value of \$50 million. They would have to
25 price that into their tender to us. So they paid for
26 those assets and had to reflect it in their tender

1 cost.

2 B.C. Hydro received consideration for those
3 assets because as part of the CPA is the VIGP Asset
4 Transfer Agreement, and the proponent has to pay B.C.
5 Hydro \$50 million. So that comes as a cash value to
6 B.C. Hydro. Consistent with all finance theory that I
7 know, you assemble your net cash flows and you
8 calculate the net present value of those. So that's
9 what we did.

10 MR. LEWIS: Q: So there was a tremendous benefit to
11 Hydro then, to the tune of \$50 million, to have Duke
12 Point go forward.

13 MS. HEMMINGSEN: A: No, I wouldn't say that. To the
14 extent that those assets meant that bidders could
15 spend less incremental costs, it reduced the price to
16 ratepayers for that contract. And ratepayers also
17 benefit by realizing the value for those assets, and
18 that \$50 million could be credited against the
19 provision that we currently have, resulting in us
20 going forward only with \$17 million to recover.

21 MR. LEWIS: Q: So those were sunk costs that were
22 credited back within the CFT?

23 MS. HEMMINGSEN: A: No, I wouldn't characterize them as
24 sunk costs. They represented assets that have value
25 either in salvage or in use.

26 MR. LEWIS: Q: Okay, thank you.

26 Proceeding Time 2:05 p.m. T08A

1 MS. HEMMINGSEN: A: Well, at -- my recollection of the
2 VIGP proceeding, and I was involved in terms of
3 outlining B.C. Hydro's plans for the CFT, was that we
4 were quite willing to go forward, we did voice some
5 concerns about timing, and as I said I believe we
6 addressed that in the design of the CFT.

7 MR. LEWIS: Q: Okay. I'm not sure if I'm going to go
8 over the line on this one, so please stop me if I do.

9 We shouldn't be surprised, then, that B.C.
10 Hydro feels this way about a negative outcome, should
11 we, given that if the -- essentially the same project
12 is turned down for the second time, and B.C. Hydro is
13 left trying to account for between 120 and 50 million
14 dollars of lost ratepayer money, it would look pretty
15 bad for you, wouldn't it?

16 MS. HEMMINGSEN: A: Is that a quote, or is that just a
17 statement you're making?

18 MR. LEWIS: Q: That's a characterization from me. I'm
19 just asking a question.

20 MS. HEMMINGSEN: A: Sorry, from me? Or --

21 MR. LEWIS: Q: From me.

22 MS. HEMMINGSEN: A: Oh.

23 MR. LEWIS: Q: I'm just asking the question.

24 MS. HEMMINGSEN: A: It's your characterization. Okay.
25 Could you repeat that again?

26 MR. LEWIS: Q: Should we be surprised that B.C. Hydro

1 feels this way about a negative outcome, given that
2 essentially the same project, if it's turned down for
3 the second time, and Hydro is left trying to account
4 to the ratepayers for a loss of between \$50 and \$120
5 million, it would look pretty bad?

6 MS. HEMMINGSEN: A: Yeah. My objective, and my team's
7 objective in designing the CFT, was to get the most
8 cost-effective outcome. So we had no preconceived
9 notions of what that outcome might be. To be totally
10 honest, we were somewhat surprised that the outcome
11 was a VIGP outcome, because the evaluation methodology
12 favoured smaller outcomes. And we had monitored the
13 process throughout, and were satisfied that there was
14 enough active smaller bidders that that was a very
15 likely outcome.

16 So when events and bidder dynamics
17 prevailed, and we got this outcome, it wasn't
18 necessarily what we expected.

19 MR. LEWIS: Q: Okay, thank you. I'd just like to draw
20 your attention to a piece of evidence, Exhibit C5-6,
21 it's the newspaper article that we referenced
22 previously.

23 MS. HEMMINGSEN: A: This is the one from 2003?

24 MR. LEWIS: Q: That's correct. It was in the middle of
25 the process. Now, just like Mr. Bois said earlier,
26 there's a statement that's attributed to you in there,

1 but it's not a quotation, so the first thing I'm going
2 to ask is, do you remember saying anything along the
3 lines of:

4 "Proponents of independent power projects
5 have a major sales job ahead of them if they
6 hope to see their projects supplant the
7 initiative Hydro has already had underway
8 for three years."

9 MS. HEMMINGSEN: A: That is not my language, so I don't
10 feel that I said that.

11 MR. LEWIS: Q: Okay, thank you.

12 When did you know that there were only
13 seven qualified bidders to be evaluated under the QEM?

14 MS. HEMMINGSEN: A: The tenders were received August
15 13th, and they would have been reviewed for conformity,
16 and the information provided on a no-names basis to me
17 at that point.

18 MR. LEWIS: Q: Okay, thank you.

19 How many non-gas-fired projects were
20 evaluated using the QEM in the CFT process?

21 MS. HEMMINGSEN: A: Mr. Soulsby can explain the
22 distinction between the portfolio evaluation and the
23 tender evaluation, but there was one non-gas-fired
24 that was subjected to the QEM tender evaluation.

25 MR. LEWIS: Q: And it received a value to be compared
26 against other portfolios?

1 MS. HEMMINGSEN: A: It was not able to be assembled
2 into a portfolio.

3 MR. LEWIS: Q: Okay. So I think we have a bit of
4 disparity here between my definition of "competition"
5 and your definition. Now, I looked it up in the
6 dictionary, and it says "to compete against, or to
7 qualify for." Now it seems to me that they were not
8 competing, if they were not evaluated. So how can you
9 state that without giving them a numerical value to
10 compare against the other portfolios, that they were
11 actually evaluated?

12 MS. HEMMINGSEN: A: Because a criteria was that they
13 had to be assembled into a minimum portfolio of 150
14 megawatts.

15 **Proceeding Time 2:10 p.m. T9A**

16 MR. LEWIS: Q: Correct. But how, then, were they
17 evaluated against those that made those portfolios?

18 MS. HEMMINGSEN: A: Well, that was through the cost-
19 effectiveness test and the section of the CFT that
20 specified the criteria for moving between Tier 1 and
21 Tier 2.

22 MR. LEWIS: Q: I believe I directed it though in this
23 panel strictly to the QEM and the CFT process. So
24 where were they within that process, using the QEM
25 evaluated numerically against the other portfolios?

26 MS. HEMMINGSEN: A: Unless that evaluation was

1 triggered by section 17.3, they could not be evaluated
2 under the CFT.

3 MR. LEWIS: Q: Thank you, that simple answer.

4 MS. HEMMINGSEN: A: On a portfolio basis.

5 MR. SOULSBY: A: I think the other point that's worth
6 mentioning is that any determination about the
7 competitiveness of the process is not necessarily
8 restricted to looking at the outcome but also looking
9 at, so to speak, how many horses started the race.
10 And so just to look at the final element of the whole
11 process and make a determination about competitiveness
12 is, I think, an insufficient test of whether --

13 MR. LEWIS: Q: Well, we definitely differ and I'd like
14 to explore that quickly. This is my last question or
15 my last line of questioning. But as I said, in the
16 definition of it, it means to qualify for. Those
17 original bidders did not qualify, did they?

18 MR. SOULSBY: A: Those original bidders didn't know
19 whether or not they would qualify when they submitted
20 the tenders.

21 MR. LEWIS: Q: But they did not qualify for evaluation
22 under the QEM, correct?

23 MR. SOULSBY: A: My point is that they didn't know that
24 when they submitted their bid.

25 MR. LEWIS: Q: My point is they didn't compete because
26 they didn't qualify.

1 MS. HEMMINGSEN: A: So I think we have a different view
2 on what defines competition.

3 MR. LEWIS: Q: Yes, I'll leave that up to the panel.
4 But the one thing that I can say, based on your
5 answers, is when it came to numerically evaluating
6 qualified portfolios, there were only gas-fired
7 generation projects included in those portfolios.

8 MS. HEMMINGSEN: A: Portfolios, yes.

9 MR. LEWIS: Q: And when originally bid in, as Mr.
10 Soulsby indicated, I believe there were at least six
11 different generation technologies: wind, hydro,
12 thermal with wood, thermal with coal, thermal with
13 gas, and then there were a variety of mixtures,
14 correct?

15 MS. HEMMINGSEN: A: There was 11 different non-gas
16 bidders originally. Then there was a pre-
17 qualification stage where a number of -- there was
18 attrition there. And then in the final bidding there
19 was one non-gas bidder.

20 MR. LEWIS: Q: So based on the panel's interpretation
21 of competition, if in fact only one, or in fact there
22 were no other projects that used a fuel other than gas
23 evaluated quantitatively under the QEM, numerically in
24 a qualified portfolio, to go from 11 to simply one,
25 does that indicate competition to you?

26 MS. HEMMINGSEN: A: No, because the portfolios could be

1 assembled from gas-fired smaller projects as well.

2 MR. LEWIS: Q: Thank you. But as far as just the
3 generation fuel -- you've answered my question with
4 gas fire.

5 MS. HEMMINGSEN: A: I'm not sure that speaks to the
6 competition.

7 MR. LEWIS: Q: Well, we agree to disagree on that and
8 we'll leave that in the Panel's determination. Thank
9 you very much.

10 MR. FULTON: Commercial Energy Consumers, Mr. Craig.

11 MR. CRAIG: Good afternoon, Mr. Chairman, panel.

12 **CROSS-EXAMINATION BY MR. CRAIG:**

13 MR. CRAIG: Q: Ms. Hemmingsen, I think we should --

14 THE CHAIRPERSON: Mr. Craig, you need to let me know
15 whether or not you're going to be asking any questions
16 about the QEM model.

17 MR. CRAIG: Sorry. I have a copy of the QEM model and I
18 don't intend to ask any questions with regard to the
19 mechanics or details of it.

20 THE CHAIRPERSON: Thank you.

21 MR. CRAIG: I intend to stay focused just on the credits
22 and the principles of evaluation and fairness around
23 those items.

24 THE CHAIRPERSON: Thank you.

25 MR. CRAIG: Sorry, Mr. Chairman.

26 MR. CRAIG: Q: Ms. Hemmingsen, it was your job to make

1 sure that the process was fair and objective, and to
2 that end you and your group established principles for
3 evaluation?

4 MS. HEMMINGSEN: A: We did.

5 MR. CRAIG: Q: And in establishing those principles of
6 evaluation, what I would like to do at this point is
7 discuss principles in general and then go to the
8 specifics. So as a first concern about a principle in
9 evaluation, would you consider that it's fair to
10 provide assets of B.C. Hydro to one of the proponents
11 or one of the project types without any charge for the
12 use of those assets.

13 | Proceeding Time 2:15 p.m. T10A

14 MS. HEMMINGSEN: A: Now, I'm going to have some trouble
15 with this line of questioning because I need to have
16 specific examples to be able to answer. So I have
17 difficulty with generalities.

18 MR. CRAIG: Q: Right. Let me make it a specific
19 example. If B.C. Hydro had agreed to write a cheque
20 for \$10 million to one of the proponents without any
21 charge for that, that's a use of B.C. Hydro's assets.
22 Would that be a fair benefit to provide to one of the
23 proponents?

24 MS. HEMMINGSEN: A: Well, as I said, I'm going to have
25 some trouble. I can talk about this in terms of the
26 VIGP value and how the cash receipt was applied in the

1 evaluation. I'm going to have real trouble with these
2 hypothetical kind of situations.

3 MR. CRAIG: Q: Well, you did concern yourself with
4 principles, did you not?

5 MS. HEMMINGSEN: A: I did and the principle was --

6 MR. CRAIG: Q: And Mr. Chairman -- sorry, as opposed to
7 pursuing the question.

8 Mr. Chairman, I think I'm entitled to
9 discuss principles with the panel at a general level
10 and I'm hoping that that's not out of scope.

11 MR. SANDERSON: I think it's not a question of scope, Mr.
12 Chairman, with great respect. It's a question of
13 getting a meaningful record. Putting hypotheticals
14 that are too general for the witness to answer, and
15 the witness has just said the ones put so far are too
16 general for that, don't assist the record. It's not a
17 question of scope at all.

18 I think Mr. Craig's direction is clear
19 enough and I don't think he should have a lot of
20 difficulty making it a little more specific and
21 centred on this process, and it might save us a lot of
22 time and make the answers a lot more useful, if he
23 were just to proceed straight to those.

24 THE CHAIRPERSON: Mr. Craig, I am sympathetic to Ms.
25 Hemmingsen's concerns, but I, at the same time, am
26 sympathetic to this line of questioning as well, and

1 so I'm hoping that you can, in fact, adopt the
2 suggestion that Mr. Sanderson has made, because I do
3 think it's an area that needs to be explored. It
4 hasn't been explored yet. So I don't want to
5 discourage you, but at the same time, as I say, I do
6 have some sympathies with Ms. Hemmingsen's concerns
7 about your hypotheticals, because they often do take
8 one to certain outcomes and it's much better if you
9 can apply it in the context of the credit that's here.

10 And I think you can do that. So I'd
11 encourage you to try to do that if you can.

12 MR. CRAIG: Well, I can certainly do that, Mr. Chairman.
13 It just is helpful to me if I segregate specific
14 situational circumstances from principle and by using
15 in place of B.C. Hydro assets, cash, it leaves out the
16 situation but allows us to address the principle
17 directly. If I go into the specific situations and I
18 just get situational responses, I don't get to deal
19 with the principles.

20 So I will follow your suggestion and
21 attempt to deal with it specifically and reserve the
22 attempt to come back to principles if I'm not getting
23 answers that deal with the principle, and if those are
24 not helpful and we can't get answers from the panel,
25 well, then so be it. But I will proceed to specifics
26 and try and do it that way.

1 THE CHAIRPERSON: And I accept your reservation.

2 MR. CRAIG: Thank you, Mr. Chairman.

3 MR. CRAIG: Q: Ms. Hemmingsen, just a moment ago you
4 said the process was set up to favour smaller bidders.
5 Can you tell me specifically how it was set up to
6 favour smaller bidders and exactly how much advantage
7 the smaller bidders were given?

8 MS. HEMMINGSEN: A: Okay.

9 MR. CRAIG: Q: And I'd like that reduced to dollar
10 terms.

11 MS. HEMMINGSEN: A: I'm not sure I can do that, and we
12 need to go back to the originations of the CFT. So
13 originally when we started this process we had
14 envisioned a transmission deferral credit being
15 included in the evaluation methodology which would
16 level the playing field for large and smaller
17 projects.

18 As we worked through the issues and we
19 received the Commission letter in January 23rd, it
20 clearly said there was no support to have a
21 transmission deferral credit.

22 The way the evaluation methodology was
23 designed, it was a lowest net present value dollar of
24 any portfolios between 150 megawatts and 300
25 megawatts. So basically the closer the portfolio was
26 to 150 megawatts, the more likely it would be the

1 least dollars in NPV terms. So that was the basis
2 that their evaluation model favoured the outcome of a
3 smaller award, towards the 150 megawatt level.

4 **Proceeding Time 2:20 p.m. T11A**

5 MR. CRAIG: Q: And can you translate that benefit that
6 you provided into dollar terms versus some specific
7 other size of project?

8 MS. HEMMINGSEN: A: I really can't think of a way to
9 translate it into dollar terms. Other than it would
10 set up so that a project that was 285 megawatts had a
11 very small chance of competing with three projects
12 that were 150 megawatts.

13 MR. CRAIG: Q: And I need some help understanding that,
14 because as I looked at it, you provided some very
15 substantial credits, the energy margin credit being
16 the biggest one, to a big project, and that helped
17 reduce the big project in NPVs down to the size of
18 other ones.

19 MS. HEMMINGSEN: A: But one thing, that was based on
20 volume --

21 MR. CRAIG: Q: I don't understand how you've developed
22 a benefit for small projects.

23 MS. HEMMINGSEN: A: So once again, that was based on
24 volume. So it was scaled similarly. In terms of how
25 the credit would apply. So if you have a larger
26 volume and you're producing more energy, it's going to

1 cost you more to produce it. Yes, you may have more
2 value associated, but relatively it's not really going
3 to change your positioning in the evaluation.

4 MR. CRAIG: Q: Okay. And you're unable to provide any
5 magnitude, or estimate, of the value that you think
6 you've provided as a benefit?

7 MS. HEMMINGSEN: A: No. I think what our position is,
8 that the nature of the evaluation methodology favoured
9 the 150 megawatt award. So any award that was close
10 to 150 megawatts.

11 MR. CRAIG: Q: Right. And is there any other method
12 that you've used to try and benefit smaller bidders?

13 MS. HEMMINGSEN: A: To benefit smaller bidders?

14 MR. CRAIG: Q: Well, it was your contention that you've
15 established the CFT rules such that they would favour
16 smaller bidders. And I -- my question earlier was,
17 how have you done that, and how much benefit have you
18 tried to transfer to smaller bidders?

19 MS. HEMMINGSEN: A: Well, I don't think we tried to
20 transfer a benefit. The nature of the design of the
21 CFT was such that it favoured the assembly of projects
22 and portfolios close to 150 megawatts. That was
23 apparent to all bidders who participated in the
24 process, because they all had the evaluation model,
25 and the rules and requirements were clearly outlined
26 to them. And they could run all those scenarios and

1 understand how they stacked up against the larger
2 projects. And in fact, that may have encouraged their
3 interest in the process.

4 MR. CRAIG: Q: So, that's the only aspect of the CFT
5 process that you felt favoured smaller bidders?

6 MS. HEMMINGSEN: A: Well, that directly went to
7 supporting an outcome, more along the 150 megawatt
8 level.

9 MR. CRAIG: Q: Yes, I understand that. I'm asking if
10 there was anything else.

11 MR. O'RILEY: A: Well, I think the willingness to take
12 gas price risk by B.C. Hydro favoured the smaller gas-
13 fired peaking projects, because it would have made it
14 very difficult for them to bid in on a fixed-price
15 basis. I would argue impossible to bid in on a fixed-
16 price basis.

17 MR. CRAIG: Q: Okay. Anything else?

18 MS. HEMMINGSEN: A: Not that I can think of.

19 MR. CRAIG: Q: Okay. Now, let me turn to the specific
20 example of the VIGP assets, and the credit that you've
21 provided --

22 MS. HEMMINGSEN: A: Thank you.

23 MR. CRAIG: Q: -- and there's been some discussion on
24 that to this point. My understanding is that you view
25 the VIGP assets as having a salvage value of 20
26 million, and that's a value that's obtained not in the

1 context of using them for a gas plant on the Island,
2 correct?

3 MS. HEMMINGSEN: A: I believe that the final salvage
4 value was established at \$14 million.

5 MR. CRAIG: Q: At 14?

6 MS. HEMMINGSEN: A: And that was based on liquidating
7 the hard assets in the marketplace.

8 **Proceeding Time 2:25 p.m. T12A**

9 MR. CRAIG: Q: Right, and so that's taking the set of
10 assets and saying they don't have value in use in a
11 gas-fired plant on the Island.

12 MS. HEMMINGSEN: A: That would be one of the --

13 MR. CRAIG: Q: So the residual salvage value is 14
14 million. And the value that you've attributed to them
15 in use is 50 million.

16 MS. HEMMINGSEN: A: Correct.

17 MR. CRAIG: Q: You've described it as a market value,
18 but in fact it's a value that B.C. Hydro set, correct?

19 MS. HEMMINGSEN: A: Informed --

20 MR. CRAIG: Q: You didn't obtain that from a market?

21 MS. HEMMINGSEN: A: Well, informed by the value of
22 those assets and the value of the permitting and
23 development activity that had been undertaken to
24 bidders given the stage it was at.

25 MR. CRAIG: Q: Right.

26 MS. HEMMINGSEN: A: So it was a considered assessment.

1 It wasn't made arbitrarily.

2 MR. CRAIG: Q: No, I wasn't disputing that it was a
3 considered assessment.

4 The value that's then offered to the bidder
5 is something that they're required to take into their
6 costs, and then you've credited them in evaluation for
7 the same amount that they've been required to take
8 into their costs. So I can assume from that, that
9 they then charge you back for what they've taken into
10 their costs, and the fact that you've credited them
11 for that in evaluation balances out the cash flow that
12 you've received. Is that correct?

13 MS. HEMMINGSEN: A: Maybe I can just characterize it in
14 my own words. So, we -- the bidders were charged a
15 price for the VIGP assets, which creates a cash flow
16 for B.C. Hydro. In paying that price, they needed to
17 reflect that in their bid price. So we would expect
18 although we don't know what -- that they incorporated
19 that in the price tendered to B.C. Hydro. The result
20 is that B.C. Hydro has, pursuant to the tender, a net
21 cash out-flow and a net cash in-flow. And what we did
22 is we netted those two cash flows for evaluation
23 purposes.

24 Similarly for the non-VIGP portfolios, we
25 netted the cash flow associated with those against the
26 salvage value.

1 MR. LEWIS

2 MS. HEMMINGSEN: A: #118

3 MR. CRAIG: Q: All right. So when you've netted the
4 cash flows like that, that becomes the equivalent of
5 transferring the asset value in use above the salvage
6 value to the proponent for their use.

7 MS. HEMMINGSEN: A: For consideration.

8 MR. CRAIG: Q: Well --

9 MS. HEMMINGSEN: A: For cash consideration.

10 MR. CRAIG: Q: But you've offset the consideration in
11 the evaluation, right?

12 MS. HEMMINGSEN: A: No, because it's a cash flow. So
13 it's going to B.C. Hydro ratepayers.

14 MR. CRAIG: Q: It's a cash flow that is received in
15 B.C. Hydro, but for then which you also receive
16 charges from the proponent if they're successful,
17 offsetting the cash flow, correct?

18 MS. HEMMINGSEN: A: And for which presumably those
19 charges were less because the incremental cost to the
20 proponent of completing the project based on acquiring
21 those assets and avoiding the need to incur those
22 charges produced a lower-cost outcome.

23 MR. CRAIG: Q: No, now hold it a minute. They were
24 required to pay for the assets, correct?

25 MS. HEMMINGSEN: A: That's right. So they did not have
26 to acquire them themselves and to incur those costs of

1 acquiring them themselves.

2 MR. CRAIG: Q: Right, for which --

3 MS. HEMMINGSEN: A: And this is -- can I just finish,
4 please? This is all outlined in a comprehensive way
5 in a response to bidder Q&A's number 118.

6 MR. CRAIG: Q: Yes.

7 MS. HEMMINGSEN: A: And it would probably be worthwhile
8 to distribute that to everyone because these issues
9 are discussed there, examples are given, and in fact
10 bidders accepted this treatment, we shared it with the
11 Commission Staff, who agreed it was an appropriate
12 treatment to pursue.

13 MR. CRAIG: Q: Yes. It's unnecessary for us to
14 distribute those. I don't intend to go into question
15 118 at this point, unless Mr. Sanderson wants to do
16 it.

17 MS. HEMMINGSEN: A: Well, this is question 118, what
18 you're asking me.

19 MR. SANDERSON: I was going to say it sounds to me like
20 Ms. Hemmingsen is suggesting that the answer she's
21 given is given more fulsomely in that particular
22 exhibit, which is a public document, which I guess it
23 sounds like Commission Staff has. So everyone's got
24 it except the Commission. It strikes me it probably
25 should be part of the record.

26 THE CHAIRPERSON: I think so too.

1 MR. SANDERSON: Would that be Exhibit B-61?

2 THE HEARING OFFICER: Marked Exhibit B-61.

3 (RESPONSE TO BIDDER Q&A'S, "TREATMENT OF VIGP ASSET
4 PRICE VERSUS SALVAGE VALUE, 118 - NOVEMBER 26, 2003",
5 MARKED AS EXHIBIT B-61)

6 **Proceeding Time 2:30 p.m. T13A**

7 MR. CRAIG: Q: Okay, Ms. Hemmingsen, when you have
8 charged them for these assets, and they turn around
9 and charge you back in the price for it, you have a
10 cash flow going out, and you have a cash flow coming
11 in for what they've paid you for those assets. In the
12 evaluation\ you have given a credit for that, so that
13 it's netted out. Correct?

14 MS. HEMMINGSEN: A: Well, it -- I would just
15 characterize the credit as a cash flow.

16 MR. CRAIG: Q: That's fine. But it has netted out,
17 right?

18 MS. HEMMINGSEN: A: Yeah. The net --

19 MR. CRAIG: Q: So that the --

20 MS. HEMMINGSEN: A: -- cash flow associated with that
21 portfolio, that's what we sought to measure.

22 MR. CRAIG: Q: So that the net effect at the end of the
23 day is, they're getting to -- in the evaluation, have
24 the advantage of those assets.

25 MS. HEMMINGSEN: A: Which they've paid for.

26 MR. CRAIG: Q: Which they've paid for, but which you've

1 credited them for.

2 MS. HEMMINGSEN: A: Because --

3 MR. CRAIG: Q: So there's no net -- there's no net

4 charge for it.

5 MS. HEMMINGSEN: A: Because they've paid us for them.

6 MR. CRAIG: Q: Which we just agreed to.

7 MS. HEMMINGSEN: A: Well, I'm not sure we did agree to

8 that.

9 MR. CRAIG: Q: You just agreed that, from a cash flow

10 point of view, you've charged them for it, you've

11 received something, they'll charge you back for it.

12 MS. HEMMINGSEN: A: Right.

13 MR. CRAIG: Q: Correct? So you're net zero there, and

14 you've added a credit for the assets into the

15 evaluation.

16 MS. HEMMINGSEN: A: Well, we don't know what they've

17 included in their tender charge to us. We know that

18 they have to reflect the cost.

19 MR. CRAIG: Q: I understand that we don't have any

20 precision with regard to what they've charged you for

21 it, because that's buried in a set of charges that are

22 based on a different valuation. But whatever they've

23 got in the way of benefit for it, they've included in

24 their charges to you.

25 MS. HEMMINGSEN: A: Right. So it's -- like, absolutely

26 tangible. There's a payment by B.C. Hydro, and a cash

1 receipt to B.C. Hydro, and what we did is, we netted
2 the two in the evaluation, and as they outlined
3 before, we undertook the same approach for the non-
4 VIGP assets and the cash flow to B.C. Hydro was the
5 salvage value.

6 MR. CRAIG: Q: When you've taken the cash flows out of
7 the equation, they have a net addition in terms of the
8 value of those assets, to their bid. Because you've
9 credited them for that in the evaluation itself.

10 MS. HEMMINGSEN: A: I just -- I'm really not
11 understanding your point. We're talking about
12 tangible cash flows, and that's what we evaluated in
13 the QEM methodology. So we netted all of the cash
14 flows. What was paid by Hydro, and what was received
15 by Hydro.

16 So a non -- and once again, this was at the
17 option of the bidders. So a bidder could develop a
18 similarly-configured facility to VIGP. They weren't
19 required to acquire the VIGP assets, and they could
20 bid in a price which would result in us not getting a
21 payment for those assets, and they would have been
22 credited with the salvage value on -- you know,
23 netting the cash flows.

24 I'm just -- I'm missing your point.

25 MR. CRAIG: Q: Clearly.

26 MS. HEMMINGSEN: A: And once -- this is outlined in

1 this question, 118. There's an example given there.

2 MR. CRAIG: Q: From the point of view of Hydro's

3 balance sheet, you've transferred assets over to a

4 proponent that you've valued at 50 million.

5 MS. HEMMINGSEN: A: And received value back, which gets

6 credited against our provision --

7 MR. CRAIG: Q: And received value back of 50 million,

8 in cash, so those net out. Now in addition to that,

9 you're going to be charged for those assets by the

10 proponent, there'll be a cost, and we agree that we

11 don't know the exact amount but, for sake of argument,

12 allow me to assume that we're getting the cost of

13 those assets charged back to us. Correct? And then

14 you've credited the amount of 50 million against that

15 charge back.

16 MS. HEMMINGSEN: A: Correct.

17 MR. CRAIG: Q: So you've netted that value out.

18 MS. HEMMINGSEN: A: Because we're getting a cash flow

19 back from the bidder.

20 MR. CRAIG: Q: No, I've already netted the cash flow

21 back against the transfer of assets.

22 MS. HEMMINGSEN: A: Well, there's --

23 MR. CRAIG: Q: You've missed one piece of the

24 transaction. You have transferred assets to the

25 benefit of a proponent.

26 MS. HEMMINGSEN: A: No, we've transferred assets for

3 MR. CRAIG: Q: So we can leave it at this point that
4 you -- you don't understand that you've transferred
5 that benefit to the proponent?

7 MS. HEMMINGSEN: A: No, I don't think we'll leave it
8 that way. It's clear we understand what we did, and
9 it's outlined in this question and clearly outlined in
10 the OEM model.

15 MR. CRAIG: Q: Had you done that, would you have
16 considered that unfair and improper if you had
17 transferred assets?

20 MR. CRAIG: Q: I think it's a fair principle question
21 to ask you, though, in the context of what we've
22 discussed. If you had transferred assets of that
23 nature without receiving adequate compensation or
24 charging them for it, would that have been unfair?

Allwest Reporting Ltd., Vancouver, B.C.

1 cross-examiner and the witnesses. Mr. Craig can make
2 what he will of that in argument and he can try and
3 persuade you in argument that the arithmetic that he's
4 putting forward is superior to the responses he's
5 getting. That allows him to make whatever point he
6 wants to make from this. He doesn't have to belabour
7 the what-ifs with the panel, who clearly don't agree
8 with his suppositions.

9 MS. HEMMINGSEN: A: Right, and I can probably just
10 offer up one final comment. This was also reviewed
11 with the independent reviewer, who completely and
12 fully affirmed that this approach was appropriate and
13 fair. So you can pursue that with them as well.

14 MR. CRAIG: Q: Okay, let me go on to the tolling
15 aspect. It's, as I understand it from the record,
16 that B.C. Hydro has offered to take on the
17 responsibility for the tolling because you have the
18 ability to manage your gas and electricity
19 requirements and do a better job of achieving a
20 reasonable cost for the tolling than perhaps bidders
21 would. And that's why you've offered that?

22 MS. HEMMINGSEN: A: Mr. O'Riley is going to --

23 MR. O'RILEY: A: That is correct.

24 MR. CRAIG: Q: Thank you. And can you give me your
25 best estimate of the value that is added by doing
26 that?

1 MR. O'RILEY: A: I don't have an estimate. We have a
2 qualitative argument that explains why it makes sense
3 for B.C. Hydro to bear that risk.

4 MR. CRAIG: Q: And would you be able to estimate that
5 as a value that you're adding?

6 MR. O'RILEY: A: I don't believe it would.

7 MR. CRAIG: Q: Can you help me understand what it is
8 about B.C. Hydro's abilities in managing it that
9 allows you to do a better job then?

10 MR. O'RILEY: A: I mean, B.C. Hydro has a portfolio of
11 gas requirements, it has a portfolio of electricity
12 purchase and sale requirements, it has a portfolio of
13 gas transportation positions, it has a transaction
14 infrastructure through Powerex, all of which it can
15 through that infrastructure access, spot and forward
16 markets for gas. We would expect that an individual
17 proponent would have to go out and buy long-term fixed
18 price gas in a fairly illiquid market and incur risk
19 premiums and such, illiquidity premiums and such. It
20 would be difficult for them to do that given the
21 concerns about the utilization factor and such, all of
22 which would add to the cost.

23 MR. CRAIG: Q: Right.

24 MR. O'RILEY: A: So there's transaction costs all round
25 that are going into the equation that we don't think
26 need be incurred.

1 MR. CRAIG: Q: Right. Now that capability that you
2 talked about and how it works through Powerex, that's
3 a capability that is otherwise used by Powerex or B.C.
4 Hydro in general to earn revenue, trade income from
5 the markets?

6 MR. O'RILEY: A: Yeah, I wouldn't characterize it as a
7 limited capability. It's certainly -- like it's not a
8 scarce resource, if you will.

9 MR. CRAIG: Q: I didn't ask if it was a scarce
10 resource.

11 MR. O'RILEY: A: Okay.

12 MR. CRAIG: Q: It's a capability that is otherwise used
13 to earn income?

14 MR. O'RILEY: A: Yeah, I guess it's not a tradeoff.
15 It's not like if we use that capability for managing
16 this risk, we can't use it for something else. That's
17 what I was suggesting.

18 MR. CRAIG: Q: That's fine. But it is otherwise used
19 to earn income --

20 **Proceeding Time 2:40 p.m. T15A**

21 MR. O'RILEY: A: It's used to -- it's used to manage
22 our risk, optimize our assets, earn trade income, any
23 number of things.

24 MR. CRAIG: Q: So, to that extent, that capability is
25 an asset of B.C. Hydro.

26 MR. O'RILEY: A: Well, I --

1 MR. CRAIG: Q: In combination with its subsidiary,
2 Powerex.

3 MR. O'RILEY: A: I struggle, I think, with the --
4 calling it an asset, and maybe it's a lack of
5 imagination but I think of an asset as something a
6 little more tangible.

7 MR. CRAIG: Q: Well, certainly not all assets are
8 tangible. Ms. Hemmingsen just referred to the VIGP
9 assets as a combination of soft assets and hard
10 assets.

11 MR. O'RILEY: A: Mm-hmm.

12 MR. CRAIG: Q: So perhaps you can --

13 MS. HEMMINGSEN: A: It's a capability --

14 MR. O'RILEY: A: It's a capability.

15 MR. CRAIG: Q: It's a capability, and capabilities can
16 be assets.

17 MR. O'RILEY: A: Yeah.

18 MR. CRAIG: Q: And they're particularly assets if they
19 have long-term value and they can produce income
20 streams associated with them.

21 MR. O'RILEY: A: Yeah. It -- I struggle with
22 suggesting that there's an income stream attached to
23 this capability. It's a --

24 MR. CRAIG: Q: But you have just offered to me that you
25 -- B.C. Hydro and, through Powerex, can and do use
26 this capability to earn income in the market.

1 MS. HEMMINGSEN: A: And yet -- what Mr. O'Riley
2 outlined is that combination of activities earn
3 income, mitigate risk, and reduce costs for
4 ratepayers.

5 MR. CRAIG: Q: Yes -- no, I understand that. I'm just
6 saying that it has this -- is this difficult? I mean,
7 it has this capability --

8 MR. O'RILEY: A: Yeah.

9 MR. CRAIG: Q: -- I didn't hear you resisting it, I'm
10 just asking to finally confirm it.

11 MR. O'RILEY: A: Yeah. And I think it's not just --
12 it's not just something within B.C. Hydro, a
13 capability within B.C. Hydro that's the consideration,
14 it's the fact that there is this larger market and
15 infrastructure that's not -- it's not -- that's not an
16 asset of B.C. Hydro, that's just a fact of the gas
17 market.

18 MR. CRAIG: Q: No, no. The market that you're
19 accessing is not -- but you have capabilities within
20 B.C. Hydro, a portfolio, and all these other things
21 that you mentioned.

22 MR. O'RILEY: A: Mm-hmm.

23 MR. CRAIG: Q: That allow you to do a better job of
24 accessing that than somebody else.

25 MR. O'RILEY: A: Yeah.

26 MR. CRAIG: Q: And I put the proposition to you that

1 that's an asset, because you are in other
2 circumstances and situations, through Powerex, earning
3 money in the markets through that. Correct?

4 MR. O'RILEY: A: Well, I would call that capability.
5 Perhaps we can --

6 MR. CRAIG: Q: But Ms. Hemmingsen, you'll agree that
7 the capabilities that B.C. Hydro has, be they soft or
8 hard assets, can be characterized as assets of the
9 company.

10 MS. HEMMINGSEN: A: Well, unfortunately I'm an
11 accountant, so I come down with a pretty hard-core
12 definition of "assets".

13 MR. CRAIG: Q: And your hard-core definition, what,
14 restricts it to hard assets?

15 MS. HEMMINGSEN: A: It would restrict it --

16 MR. CRAIG: Q: Or do you agree with me that soft assets
17 can be --

18 MS. HEMMINGSEN: A: -- more than calling it -- sorry.
19 It would restrict it more than calling capabilities
20 assets, yes. Sorry, that's just what my position
21 would be. And I'm not sure it matters whether we --
22 you call it an asset or we call it a capability, the
23 fact is, it's a basis to reduce risk or cost to
24 ratepayers, and goes back to the overall balance that
25 we were trying to achieve in designing the CFT, is to
26 make sure that we secured a cost-effective outcome.

1 MR. CRAIG: Q: Let me go with you as far as you've
2 gone, then. It's a capability that has significant
3 value to you in the context of working with Powerex to
4 earn income, and in this context, has a capability
5 that has been used to confer a benefit in terms of --
6 as you've characterized it, reducing a cost that would
7 otherwise have to be incurred by a proponent. Am I
8 correct?

9 MS. HEMMINGSEN: A: But -- no, I said ratepayers.
10 Because our over-arching objective -- because
11 remember, you wanted to talk about principles, was to
12 design a CFT that would produce a cost-effective
13 outcome for ratepayers. And within that over-arching
14 objective, it was to be fair and competitive and to
15 follow the Commission's directions. So what we were
16 trying to do is achieve a balance under those
17 subsidiary objectives.

18 MR. CRAIG: Q: So I -- you're not --

19 MS. HEMMINGSEN: A: But cost-effectiveness was the
20 paramount parameter.

21 MR. CRAIG: Q: So can I get you to answer the question?
22 That this is a capability that B.C. Hydro has, we've
23 agreed to that. It otherwise earns income in the
24 hands of Powerex, in the marketplace --

25 MR. O'RILEY: A: Yeah, sorry, just on that point, I
26 mean, it implies the scarcity to it. I mean, we're

1 still going to earn the same income at Powerex, and
2 apply the capability to this service, if you will.

3 MR. CRAIG: Q: This is sort of the second time that
4 I've said I'm not trying to imply a scarcity.

5 MR. O'RILEY: A: Okay.

6 MR. CRAIG: Q: So --

7 MS. HEMMINGSEN: A: Or maybe a "fundability," or
8 something.

9 MR. O'RILEY: A: Yeah. I mean, you're trying to get us
10 to agree, and so I'm trying to find agreement. So I'm
11 trying to tell you where I -- where I don't agree, I
12 guess. So. And it is in the details

13 **Proceeding Time 2:45 p.m. T16A**

14 MR. O'RILEY: A: So. And it is in the details, so --

15 MR. CRAIG: Q: But you're disagreeing with things that
16 I haven't asked or asserted, so --

17 MR. O'RILEY: A: Okay.

18 MR. CRAIG: Q: -- let's try again. This is a
19 capability that B.C. Hydro and its subsidiary Powerex
20 have.

21 MR. O'RILEY: A: Yes.

22 MR. CRAIG: Q: In other circumstances in the
23 marketplace it's applied to earn income --

24 MR. O'RILEY: A: And mitigate --

25 MR. CRAIG: Q: -- generate revenue, trade income.

26 MR. O'RILEY: A: And mitigate risk and optimize assets.

1 MR. CRAIG: Q: And mitigate risk and reduce costs.

2 MR. O'RILEY: A: Yes.

3 MR. CRAIG: Q: And in this case you've applied it to
4 offer this as a benefit to a proponent.

5 MR. O'RILEY: A: Well, I think as we described earlier,
6 it's a benefit -- it actually benefits different
7 proponents in different ways.

8 MR. CRAIG: Q: Yes.

9 MR. O'RILEY: A: And so I gave an example where it
10 benefits gas-fire proponents by giving them more
11 options to bid, making it more competitive, allowing
12 them to bid inflexible dispatchable products, products
13 that have low utilization. It also benefits
14 proponents of smaller fixed-price bids by allowing the
15 construction of more small portfolios. So there's
16 benefits all round and benefits to ratepayers as well.

17 MR. CRAIG: Q: Now, are you talking about just the
18 tolling?

19 MR. O'RILEY: A: I'm talking about the capability that
20 we've --

21 MR. CRAIG: Q: Overall, the overall capabilities that
22 you've supplied, which include the --

23 MR. O'RILEY: A: I'm talking about the capability,
24 which it has been suggested that we're conferring upon
25 certain bidders.

26 MR. CRAIG: Q: Yes, but you're talking about taking on

1 the gas risk in combination with this, and at the
2 moment I'm just talking about the tolling, right?

3 MR. O'RILEY: A: Okay, I'll let you --

4 MR. CRAIG: Q: So what I'm trying to get you to agree
5 with is you have this capability. In other
6 circumstances you use it to earn income, and you have
7 used it in this case to reduce costs for proponents of
8 gas-fired plants by offering them a tolling
9 incapability, and it's a significant benefit that you
10 cannot estimate the amount of benefit --

11 MR. O'RILEY: A: We're using it to lower costs for
12 ratepayers. We're trying to avoid the addition of a
13 gas risk premium that we wouldn't want to incur --

14 MR. CRAIG: Q: I understand that.

15 MR. O'RILEY: A: -- and the ratepayers are going to
16 pay.

17 MR. CRAIG: Q: And I think it's very important to
18 distinguish, particularly for the Commission, the
19 difference between a purchasing decision where you
20 benefit the ratepayers, and a competitive process
21 where you apply an asset or a value or a benefit to
22 the benefit of one proponent or one type of project.

23 MS. HEMMINGSEN: A: Well, I think we --

24 MR. CRAIG: Q: And so I want to stick at this point
25 with just the competitive process, and you have
26 applied this to help reduce the costs of tolls and

1 create a benefit for them which you cannot estimate
2 the amount of.

3 MS. HEMMINGSEN: A: And I think where we disagree with
4 you, as we've outlined, and I think Mr. O'Riley and I
5 have both outlined that, is it wasn't a single
6 consideration. The decision to do this was made in
7 terms of balancing a number of competing objectives.
8 The most prominent of those was cost-effective
9 outcome.

10 MR. CRAIG: Q: Oh, sure.

11 MS. HEMMINGSEN: A: It also facilitated competition.
12 It had a number of different benefits. So we're not
13 agreeing with your narrow kind of definition.

14 MR. CRAIG: Q: I don't understand what I was defining
15 that you can't agree with.

16 MS. HEMMINGSEN: A: Well, I can't agree --

17 MR. CRAIG: Q: I thought it was a pretty
18 straightforward question.

19 MR. SANDERSON: It was many things. Straightforward it
20 was not. Having said that, Mr. Craig has with great
21 elaboration laid out his position. The witnesses have
22 responded. The record is clear. Again, I think Mr.
23 Craig has got all he's going to get to argue with.
24 I'm not sure that the debate going back and forth,
25 whether these two sides of the coin ever see eye to
26 eye I don't think matters. I think he can make his

1 points, such as they are, in argument, based on the
2 record he's now got.

3 MR. CRAIG: I'm prepared to accept that I've gone as far
4 as I can, Mr. Chairman.

5 MR. CRAIG: Q: Let me turn to the energy margin.
6 There's a very substantial credit provided in the
7 evaluation for the energy margin.

8 MR. SOULSBY: A: There's a credit provided in the
9 evaluation for an energy margin, yes.

10 MR. CRAIG: Q: You're disputing that it's very
11 substantial?

12 MR. SOULSBY: A: Well, that depends on the situation.
13 As has been pointed out by a number of intervenors
14 already, in certain years it's not substantial at all,
15 in fact it's zero.

16 MR. CRAIG: Q: In certain years. No, but I was talking
17 about the NPV evaluation.

18 MR. SOULSBY: A: Right.

19 MR. CRAIG: Q: And at the least the one I looked at and
20 the one that's in the exhibit that you've just put on
21 the record is quite substantial, I thought.

22 **Proceeding Time 2:50 p.m. T17A**

23 MR. SOULSBY: A: Are you talking about the EPA now? Or
24 are you talking about a specific bidder within the
25 evaluation? I mean, it can be substantial, it can be
26 not substantial.

1 MR. CRAIG: Q: All right. Let's leave that.
2 What happens if the energy margin that
3 you've provided a credit for is not realized?
4 MR. SOULSBY: A: Is that a question for the EPA or is
5 it a question within the --
6 MR. CRAIG: Q: It's a question for the panel. You'll
7 know best who is the right person to answer.
8 MS. HEMMINGSEN: A: Well, if the energy margin isn't
9 realized, it would be driven by the dispatch being
10 lower than expected, because we wouldn't dispatch it
11 if it was uneconomic to do so, and the net price on a
12 unit basis would increase.
13 MR. CRAIG: Q: Okay. So costs go up if we don't
14 achieve this energy margin that's in there.
15 MR. O'RILEY: A: Well, the per-unit cost --
16 MR. CRAIG: Q: Per-unit cost.
17 MR. O'RILEY: A: -- of the portfolio goes up.
18 MS. HEMMINGSEN: A: Yes.
19 MR. SOULSBY: A: Yes.
20 MR. O'RILEY: A: It may well be we're buying cheaper
21 power in the market.
22 MR. CRAIG: Q: Yes, I --
23 MR. O'RILEY: A: And we're better off than what we
24 forecast.
25 MR. CRAIG: Q: I understand that. And that would be
26 because you'd have already committed to this

1 arrangement, so you would have some fixed costs, and--
2 MS. HEMMINGSEN: A: That's right, for that --
3 MR. CRAIG: Q: -- so at that point your decisions are
4 made based on variable costs, which is quite
5 appropriate.
6 MR. O'RILEY: A: Yes.
7 MR. CRAIG: Q: Okay. And what degree of assurance or
8 guarantee or high probability do we have that this
9 energy margin will be realized?
10 MR. O'RILEY: A: Well, we've described our forecast
11 methodology, and we've tested the dispatch against
12 different scenarios for the relationship between power
13 and gas, which is really the driver for utilization.
14 And we've offered two scenarios as well as a stress
15 test in the cost-effectiveness study, that results in
16 a substantially lower dispatch.
17 MR. CRAIG: Q: Can you give me a probability that this
18 will be realized?
19 MR. O'RILEY: A: The scenarios -- we don't have
20 probabilities attached to our scenarios, we're
21 weighting them equally, 50 percent equally.
22 MR. CRAIG: Q: Can you at this point give me your
23 judgment or best estimate as to what the probability
24 is that that will be realized in the amount that's
25 included for the successful proponent?
26 MR. O'RILEY: A: Well, we have a reasonable

1 expectation, based on the work that's gone into
2 constructing the portfolio -- the price scenarios that
3 they reflect expectations of future market conditions.

4 MR. CRAIG: Q: And that's helpful, that you have a
5 reasonable expectation. I would like to help the
6 record, and help the Chair understand that, in terms
7 of a quantitative value. Can you give me your
8 estimate of the probability that it will be achieved?

9 MR. O'RILEY: A: We don't have a -- I can't give you a
10 percentage confidence interval -- confidence value for
11 the two scenarios, beyond the 50 percent weighting
12 that we've provided.

13 MR. CRAIG: Q: So where should the record look to
14 understand whether or not that is highly achievable?

15 MR. O'RILEY: A: Well, I think there's --

16 MR. CRAIG: Q: Or more likely to result in higher unit
17 costs?

18 MS. HEMMINGSEN: A: Well, it's our expected value, as
19 Mr. O'Riley outlined. And furthermore, some of the
20 other options that we evaluated in the cost-
21 effectiveness analysis don't have confident bands
22 around them either. For example, the transmission
23 cable does not have a band to allow for cost
24 uncertainties, nor timing uncertainties. So there's
25 uncertainty with that option as well. We can't
26 guarantee that that cable will be built at \$209

1 million, and it will be delivered in October, 2008.

2 MR. CRAIG: Q: Mr. O'Riley, when you're evaluating
3 risks for B.C. Hydro, do you find it useful to try and
4 quantify those in terms of probabilities of things
5 occurring?

6 MR. O'RILEY: A: We do, but I think with longer-term
7 decisions like this, it's -- I mean, we've had
8 tremendous discussions here about the forecasting
9 process and it's quite frankly very difficult to
10 attach probabilities to different scenarios. So we do
11 it on a qualitative basis, and we test outcomes with
12 different scenarios. And that's what we've done in
13 this -- in the price forecasting approach that was
14 used in the QEM.

15 MR. CRAIG: Q: But as I see it, for the Commission
16 panel and for anybody that's going to try and argue
17 from the record, it's essential to have some
18 understanding of these uncertainties, particularly
19 when they can be so sizeable, and they can vary what
20 will be the cost-effective outcome significantly.

21 **Proceeding Time 2:55 p.m. T18A**

22 And at this point, from a risk point of
23 view, I can get your confirmation that we have not
24 assessed the uncertainties in terms of likelihood or
25 probability. We have no quantitative way of
26 discussing these.

1 MR. O'RILEY: A: We've provided three scenarios, two in
2 the QEM model and one in the cost-effectiveness study,
3 of different outcomes for the future.

4 MR. CRAIG: Q: Right, and I understand that from the
5 record. But that doesn't give me an assessment of the
6 uncertainty or probability in a quantitative term.

7 MS. HEMMINGSEN: A: Well, quite frankly, our position
8 would be any assessment would be arbitrary. So what
9 we've done is we have provided what we consider to be
10 a reasonable range of scenarios and tested the outcome
11 against that, and we're satisfied that the outcome is
12 good in light of our expected --

13 MR. CRAIG: Q: Now, when you're providing this energy
14 margin, you're essentially taking on the risk of
15 managing the gas costs?

16 MR. O'RILEY: A: We are.

17 MR. CRAIG: Q: And is that something that you do with
18 this capability that you have through Hydro and with
19 Powerex?

20 MR. O'RILEY: A: We will use our capability to manage
21 this risk, assuming this contract proceeds.

22 MR. CRAIG: Q: And in doing that, is that a capability
23 in the marketplace that Powerex also uses to make
24 revenue, trade income?

25 MR. O'RILEY: A: Yes.

26 MR. CRAIG: Q: And is there an unlimited amount of

1 trade income that can be earned from using this
2 capability?

3 MR. O'RILEY: A: There's not an unlimited -- we have
4 forecasts, for example, for trade income which we've
5 shared, of showing it growing over time.

6 MR. CRAIG: Q: It's not an unlimited capability. It's
7 very much dependent on what the market has. And in
8 fact, you've also provided evidence earlier that over
9 time the market changes as certain things are taken
10 advantage of or happen in the marketplace. So it's a
11 limited capability.

12 MR. O'RILEY: A: I would suggest the limits on the
13 capability are more the opportunities that exist in
14 the market --

15 MR. CRAIG: Q: Yes.

16 MR. O'RILEY: A: -- as opposed to our ability to --

17 MR. CRAIG: Q: I accept that.

18 MR. O'RILEY: A: And we can scale up easily our
19 capability to --

20 MR. CRAIG: Q: You have the capability regardless of
21 what happens in the market. The market doesn't offer
22 endless opportunities.

23 MR. O'RILEY: A: Yes.

24 MR. CRAIG: Q: That's fair and that's helpful.

25 Now, because this is a scarce opportunity,
26 and Powerex is involved in doing it, and Powerex is

1 involved in using this to earn trade income, as I
2 understand the situation here, you've applied that
3 capability to generate a benefit that you've applied
4 to the project specifically.

5 MR. O'RILEY: A: Yeah. I'm not sure we're talking
6 about the same opportunity throughout. And I should
7 just make clear that it's not just Powerex, that this
8 capability doesn't just reside in Powerex; and within
9 B.C. Hydro in Distribution and Generation we manage
10 the domestic purchasing portfolio --

11 MR. CRAIG: Q: Yes.

12 MR. O'RILEY: A: -- and we execute transactions through
13 Powerex.

14 MR. CRAIG: Q: Sure.

15 MR. O'RILEY: A: That's the mechanics of the process.
16 So I'm not clear we're using "opportunity" in the same
17 context. I was referring to the opportunities that
18 Powerex has to go out and take advantage of
19 opportunities and to capture margin in the market.

20 MR. CRAIG: Q: I think we are using them in the same
21 sense, that this is an opportunity that you've said is
22 not a restriction in terms of a capability of asset,
23 or capability of strengths inside Hydro. It's an
24 opportunity that's limited in the marketplace.

25 MR. O'RILEY: A: Yes, and our ability to take on risk
26 in the marketplace and considerations like that.

1 MR. CRAIG: Q: Yes.

2 MR. O'RILEY: A: Capital, for example.

3 MR. CRAIG: Q: That whole set. So Powerex has a
4 mandate to use that capability and to go into the
5 marketplace and earn trade income, correct?

6 MR. O'RILEY: A: Yes.

7 MR. CRAIG: Q: And if you -- well, you have said that
8 you've used that capability here to create a benefit
9 for a certain type of project and certain proponents.

10 MR. O'RILEY: A: I think we said we've used that
11 capability to get a lower-cost outcome for ratepayers,
12 which is our overall objective.

13 MR. CRAIG: Q: Yes. I understand what your intent was.
14 But you'll agree with me that you've used that
15 capability to provide a benefit to gas-fired plant
16 type projects, and a specific proponent has benefited
17 from that.

18 MR. O'RILEY: A: Well, I also described examples, and
19 we had an extensive discussion this morning about how
20 this approach of B.C. Hydro taking on the gas risk
21 benefited other proponents as well. So I think it's
22 difficult to quantify the relative benefits, but I see
23 gas-fire proponent benefiting from this, non-gas-fire
24 proponents benefiting, and B.C. Hydro ratepayers
25 benefiting. So I see it's a win-win-win proposition.

26 **Proceeding Time 3:00 p.m. T19A**

1 MR. CRAIG: Q: By no means do you see that benefit as
2 being equal, or that you will give me a value or a
3 number for the amount of benefit for each type of
4 project?

5 MR. O'RILEY: A: Well, I'm not sure we can calculate
6 the benefit, the relative benefit, but I think it's a
7 substantial benefit for all three parties in the
8 course of this.

9 MR. CRAIG: Q: Right. And we've agreed that it's a
10 limited opportunity in the marketplace that's
11 providing the source of this benefit, and will you
12 agree with me that Powerex in its mandate to use this
13 capability to generate income from this limited
14 opportunity does so and produced trade income?

15 MR. O'RILEY: A: Yes, Powerex does. And we may have
16 lost a little bit, and we're using the term capability
17 and opportunity and I'm not sure we -- I'm not sure
18 it's clear to me what we mean by each of them any
19 more.

20 MR. CRAIG: Q: So let me be clear what I'm meaning
21 then. The capability we've described, and I think we
22 agree on, is the internal ability of B.C. Hydro
23 retained within the subsidiary Powerex and in certain
24 other areas of B.C. Hydro to access the market plus
25 B.C. Hydro's capability to take on risk and a few
26 other relevant things that are a part of actually

1 capturing an opportunity, and by opportunity I mean
2 the marketplace provides a limited range of
3 opportunities to turn the management of gas and
4 electric prices and risks into value.

5 MR. O'RILEY: A: Yes, and I think that's an important
6 distinction, and we should just remember that this
7 plant is not being built to access those external
8 market opportunities. The energy from this plant, we
9 will use to meet our domestic load. We are using this
10 evaluation methodology, this QEM approach where we
11 calculate the value of power and the cost of the gas
12 to terminate energy margin, but once we've -- if,
13 presuming the contract is approved and the project is
14 built, this project will be primarily there to meet
15 domestic load.

16 MR. CRAIG: Q: I understand that and I don't think it
17 would be valuable for us to confuse the panel that I
18 would be suggesting that this would be used to earn
19 trade income. It's the capability that you are
20 applying and the limited opportunities in the
21 marketplace that Powerex has a mandate to turn into
22 trade income, and in fact does it. And you were there
23 in Powerex doing it.

24 MR. O'RILEY: A: Yes, and I think I agree with that.

25 MR. CRAIG: Q: Thank you. Most helpful. And would you
26 agree with me that in the context of the Heritage

1 contract the income that can be earned from trade
2 income is allocated to the benefit of ratepayers?

3 MR. O'RILEY: A: Yes, it is up to the cap of \$200
4 million.

5 MR. CRAIG: Q: Up to the cap of 200 million and then it
6 becomes something else. Thank you.

7 Mr. Chairman, I think that's as far as I've
8 gone or can go with the credit issues and while I
9 think there's merit in pursuing these principles
10 further, I'll do so in argument and when I have an
11 opportunity to present evidence as a panel.

12 Thank you, Mr. Chairman. Thank you, Panel.

13 THE CHAIRPERSON: Thank you. Let's get started with --
14 we'll sit for another ten minutes or so.

15 MR. FULTON: I see Mr. Quail is on his way up to the
16 mike, Mr. Chairman.

17 MR. QUAIL: Yes, Mr. Chairman, I have no intention of
18 probing into the QEM. There's been lots of questions
19 asked about it already, I won't contribute to those.
20 And being down the list of cross-examiners, to a large
21 extent the hearing is a process of crossing out and
22 pulling out pages of material that have been
23 labourously worked over. But perhaps so much the
24 better.

25 **CROSS-EXAMINATION BY MR. QUAIL:**

26 MR. QUAIL: Q: Ms. Hemmingsen, during your cross-

1 examination by Mr. Weisberg you appeared to be saying
2 -- my understanding of your testimony was to the
3 effect that the introduction of new criteria in this
4 process by the Commission in the approval of the EPA
5 could have a negative impact on future bidders of
6 future Hydro projects. Is that a fair statement of
7 your testimony?

8 MS. HEMMINGSEN: A: My recollection is what I stated in
9 terms of new criteria was looking at additional
10 options that weren't available to us under the CFT
11 process and supplanting a competitively determined
12 outcome with those options, would, in my estimation,
13 send reverberations to the IPP community in the
14 future, and raise their sense of the risk of
15 contracting with B.C. Hydro.

16 **Proceeding Time 3:05 p.m. T20A**

17 MR. QUAIL: Q: I see. In other words, a regulatory
18 risk, in effect, that you thought would -- might
19 hamper bids for projects. Is that what you're saying?

20 MS. HEMMINGSEN: A: It might dampen the interest or
21 increase the cost to B.C. Hydro of acquiring that
22 supply.

23 MR. QUAIL: Q: Now, the agreement that you've brought
24 here for approval with Duke Point Power is subject to
25 Commission approval, is it not?

26 MR. ECKERT: A: That's correct.

1 MR. QUAIL: Q: And both parties contemplated that the
2 details and merits of the proposal --

3 MS. HEMMINGSEN: A: Can I just clarify that? My
4 understanding of Section 71, under which we're putting
5 forward the EPA, is the Commission can either allow or
6 disallow that agreement --

7 MR. QUAIL: Q: Yes.

8 MS. HEMMINGSEN: A: -- which I don't think is the same
9 as approval of a project or not.

10 MR. QUAIL: Q: All right. Take that -- in terms of
11 this context, probably distinction without a
12 difference, but thank you for the clarification.

13 Now, both parties had contemplated that the
14 details and merits of their proposal would be matters
15 within the jurisdiction of this Commission, to review.
16 Is that not correct?

17 MS. HEMMINGSEN: A: I sense that they contemplated it
18 would be, but considering that the CFT was conceived
19 under a regulatory hearing, the Commission put forward
20 some recommendations in the VIGP decision, and further
21 made some comments in a letter in January, that B.C.
22 Hydro followed, I think bidders could anticipate that
23 there would be some Commission endorsement of the
24 process.

25 MR. QUAIL: Q: If you'd just answer questions put to
26 you and not engage in argument, this process will go

1 much better. So I'd ask you to please do that.

2 You and the -- both parties to the
3 agreement understood that the -- and you understand
4 that this Commission is required to exercise
5 independent judgment in determining whether or not
6 this agreement is in the public interest. You
7 understand that, don't you?

8 MS. HEMMINGSEN: A: I do.

9 MR. QUAIL: Q: And all bidders would have understood
10 all of that, wouldn't they?

11 MS. HEMMINGSEN: A: I can't speak to what all bidders
12 would have understood.

13 MR. QUAIL: Q: You've spoken to their pleasure with the
14 process without, I might say, them being brought in
15 here to give testimony. There seems to be different
16 standards about when we can parade supposed views of
17 contenders who are not present here, but --

18 MS. HEMMINGSEN: A: Well, I think you were asking me
19 what was my basis for my statement --

20 MR. QUAIL: Q: -- what I'm saying, would you disagree
21 with me --

22 MR. SANDERSON: Let Ms. Hemmingsen finish, please.

23 MR. QUAIL: Q: Let me rephrase the question, then.

24 That we're talking about sophisticated
25 players in this sort of bidding process, are we not?

26 MS. HEMMINGSEN: A: I think there's a range of players

1 that B.C. Hydro has dealt with in its contracting
2 processes. Some of them are more sophisticated than
3 others.

4 MR. QUAIL: Q: I see. And corporations that are in the
5 business of providing electrical capacity, I put it to
6 you, are accustomed to operating in a regulated
7 environment. Isn't that the case?

8 MS. HEMMINGSEN: A: Could you repeat the question,
9 please?

10 MR. QUAIL: Q: If I can remember how I put it, this
11 might come out a little different this time. But
12 corporations that are engaged in the business of
13 providing electrical capacity can be presumed to be
14 accustomed to operating in a regulated environment.
15 This is a regulated sector that they're in, is it not?

16 MS. HEMMINGSEN: A: My understanding is, there's quite
17 different standards across the jurisdictions that
18 contract for supply.

19 MR. QUAIL: Q: And everyone, including Hydro,
20 participated in this exercise with full knowledge that
21 the EPA may or may not pass muster with the
22 Commission. Isn't that correct?

23 MS. HEMMINGSEN: A: That was one implication, that it
24 may not, yes.

25 MR. QUAIL: Q: And presumably participants in future
26 calls for bids would also be aware of that

1 possibility. Is that not the case?

2 MS. HEMMINGSEN: A: Yes.

3 MR. QUAIL: Q: That regulatory risk, if we can call it
4 that, from the proponent's point of view, comes with
5 the territory, doesn't it?

6 MS. HEMMINGSEN: A: It does come with the territory. I
7 guess it's the degree of regulatory risk.

8 MR. QUAIL: Q: Okay. And as you have acknowledged,
9 that varies a great deal from jurisdiction to
10 jurisdiction. Or jurisdiction --

11 MS. HEMMINGSEN: A: That's my understanding.

12 **Proceeding Time 3:10 p.m. T21A**

13 MR. QUAIL: Q: There are jurisdictions in North America
14 that are much -- involve much closer regulator handles
15 than we have in British Columbia, isn't that correct?

16 MS. HEMMINGSEN: A: And there's some that involve less.

17 MR. QUAIL: Q: Yes. Now, with reference to some
18 questions you were asked by Mr. Lewis, you indicated
19 that in the agreement Duke Point Power Incorporated is
20 responsible for greenhouse gas liability. You recall
21 giving that evidence? I forget which member of the
22 panel it was, but somebody said that.

23 MR. SOULSBY: A: Yes.

24 MR. QUAIL: Q: For the record could you indicate where
25 the provisions governing this issue would be found in
26 the agreement? If you don't have them close at hand,

1 perhaps they could be provided after.

2 MR. ECKERT: A: I actually do have them close at hand,
3 and I'll correct a reference I made earlier. It's
4 section 8.10(c)(i), where it says that "the seller is
5 solely responsible at the seller's cost for compliance
6 with all regulatory and other legal requirements with
7 respect to all emissions from the seller's plant, and
8 including greenhouse gas emissions."

9 MR. QUAIL: Q: I'm just frankly having some difficulty
10 quite grasping in my head what this means in practice
11 in the real context. So let's -- I think this is a
12 pretty safe assumption -- sometime between now and
13 2032, Canada and other nations actually bite the
14 bullet on the Kyoto Accord, and there's serious
15 mandatory standards having to do with greenhouse gas
16 emissions. I know that sounds hypothetical, but you
17 probably agree with me within that timeframe, it's not
18 uncertain [sic] by any means.

19 So the scenario is that B.C. Hydro has a
20 portfolio with all kinds of different resources
21 producing capacity and electricity. Some produce
22 greenhouse gas, some don't. And let's say you're
23 facing standards where you're required to roll back
24 your total contribution to greenhouse gases, maybe
25 fairly drastically, over some time frame.

26 **Proceeding Time 3:11 p.m. T22A**

1 One of those resources out of that
2 portfolio is Duke Point spewing out its share of
3 greenhouse gas. What is your understanding of the
4 mechanism that would engage Duke Point Power
5 Incorporated's responsibility for dealing with that
6 overall problem that you've got with your portfolio?

7 MR. ECKERT: A: Well, there's two provisions. The
8 first provision is that they would be responsible for
9 greenhouse gas emissions. The second provision, the
10 follow-on to that section that I just read, provides
11 an indemnity from the seller to B.C. Hydro in the
12 event that we incurred any liability with respect to
13 any such emissions.

14 MR. QUAIL: Q: So it would be your understanding that
15 if, let's say you were forced to find offsets
16 elsewhere in your portfolio, Duke Point would have to
17 indemnify you for the added cost that that would mean
18 for your ratepayers, is that your understanding?

19 MR. SOULSBY: A: I think one point of clarification is
20 that you described the emissions from Duke Point Power
21 as being part of B.C. Hydro's portfolio of GHG
22 liability and as Mr. Eckert said, that's not the case.
23 So when B.C. Hydro is looking to manage its portfolio
24 of GHG emissions, Duke Point Power would not be part
25 of that.

26 MR. QUAIL: Q: Well, that's -- I don't want to engage

1 in legal argument with you. There's a question of the
2 perspective of the parties to the contract as opposed
3 to an environmental regulator, but anyway, maybe I'll
4 leave that for argument, but again, having some
5 difficulty understanding concretely what this
6 translates into.

7 MR. ECKERT: A: Well, I think it's clear in the
8 contract that if there is a liability that's
9 associated with this plant's emissions, if those costs
10 are incurred by the seller, he is solely responsible
11 for them. If somehow B.C. Hydro is -- if there is
12 somehow some cost to B.C. Hydro with respect to
13 emissions from this power plant, there's an indemnity
14 from the seller to the buyer.

15 MR. QUAIL: Q: And I understand that. I just say I
16 have difficulty concretely understanding how that's
17 going to play through in a real life scenario. So for
18 example, if the result of such regulation means there
19 has to be a reduction in the utilization rate of the
20 plant, is he understanding that would have any
21 implications in terms of the fixed charges that you
22 would be paying Duke Point? I mean that's the nuts
23 and bolts level these things happen.

24 Say something. Mr. Soulsby --

25 MS. HEMMINGSEN: A: The basic --

26 MR. QUAIL: Q: -- is nodding his head.

1 MS. HEMMINGSEN: A: -- establishes that there be
2 indemnification to B.C. Hydro.

3 MR. QUAIL: Q: I understand that.

4 **Proceeding Time 3:15 p.m. T23A**

5 MR. QUAIL: Q: I understand that. Now, there is a
6 question that I had put to Panel 1 and was advised
7 that I should refer it to you folks instead, and
8 that's with reference to Gold River IR 1.2.11.

9 THE CHAIRMAN: Let's take our break now. We'll take 15
10 minutes.

11 **(PROCEEDINGS ADJOURNED AT 3:15 P.M.)**

12 **(PROCEEDINGS RESUMED AT 3:33 P.M.)** **T24A**

13 THE CHAIRMAN: Please be seated.

14 MR. FULTON: Mr. Chairman, I did want to address the
15 potential for an *in camera* session, or the potential
16 for the *in camera* session tomorrow.

17 We have very few questions of an *in camera*
18 nature. I did provide a copy of those questions to
19 Mr. Sanderson, and what we have agreed, subject to the
20 Chair's approval, is that we will ask those questions
21 on the record, absent the numbers, have provided the
22 numbers to Mr. Sanderson, and the answer will come
23 back on a confidential basis, but at least everyone
24 here will have the questions absent the numbers. That
25 will avoid the need for an *in camera* session tomorrow.

26 THE CHAIRMAN: Which means that the answers will come

1 back in writing as well.

2 MR. FULTON: Yes. The question will -- the questions
3 will be made on the record, absent the numbers. They
4 do have the questions with the numbers in them. The
5 answers will come back in written form on a
6 confidential basis.

7 THE CHAIRMAN: Why are the questions not provided in
8 writing?

9 MR. FULTON: Well, I have provided them in writing, Mr.
10 Chairman. The reason for asking the questions on the
11 record is so that all the parties will have those
12 questions.

13 THE CHAIRMAN: But we can get them to everyone without
14 reading them into the record, taking the time on the
15 record to do that. Simply make them available, in
16 writing.

17 MR. FULTON: All right, we'll do that, then, Mr.
18 Chairman.

19 THE CHAIRMAN: And the only reservation I have, Mr.
20 Sanderson, and that sounds like a good proposal, but
21 my only reservation is questions that the panel may
22 wish -- of this panel. So it will take -- I'm not
23 expecting any. But it may take an evening for us to
24 make that determination, and so I think when we excuse
25 your panel tomorrow it will be with that reservation,
26 that they may need to be called back for an *in camera*

1 session with the panel.

2 **Proceeding Time 3:35 p.m. T25A**

3 that reservation, that they may need to be called back for
4 an *in camera* session with the panel.

5 MR. SANDERSON: As you wish, Mr. Chairman, we'll make
6 them available again, or alternatively, if it makes
7 sense to do that, then -- and the panel is ready to do
8 that, we can do that too. So whatever suits the panel
9 in that respect is fine.

10 THE CHAIRPERSON: Thank you.

11 **CROSS-EXAMINATION BY MR. QUAIL (Continued):**

12 MR. QUAIL: Q: Okay, we left off with Gold River
13 Information Request 1.2.11, having to do with fixed
14 charges. This is a question punted over to you from
15 Panel 1. I just wanted to confirm first of all, this
16 indicates that there is a fixed charge called tendered
17 capital charge of \$12,029.17 per megawatt per month.

18 MR. ECKERT: A: That's correct.

19 MR. QUAIL: Q: And according to my calculation,
20 multiplied by 252 megawatts, that's a total of
21 \$3,031,350.84 per month.

22 MR. ECKERT: A: That's my math too.

23 MR. QUAIL: Q: All right, so we did have somebody with
24 a calculator and have resolved that problem.

25 I had also raised the question whether
26 there were other fixed costs. Already, I think, in

1 the course of the proceedings there's the Terasen
2 capacity cost which is still unquantifiable, which you
3 consider a fixed cost. What other categories of fixed
4 costs are there other than the tendered capital charge?

5 MR. ECKERT: A: There's also what we define as the OMC,
6 which is the operating and maintenance charge, and
7 that is fixed on a dollar per megawatt per month basis
8 as well. That number escalates with CPI, and that
9 number is \$2,573.63 per megawatt per month.

10 MR. QUAIL: Q: That's the original amount and then it
11 escalates --

12 MR. ECKERT: A: And then that escalates at CPI.

13 MR. QUAIL: Q: Thank you. What's the logic behind the
14 escalation, simply anticipated inflation?

15 **Proceeding Time 3:37 p.m. T26A**

16 MR. ECKERT: A: It was intended that that payment would
17 cover the things like the labour cost for the
18 operation of a plant, and those costs would escalate
19 with time. And the tender allowed bidders to escalate
20 that at some percentage of CPI, subject to a floor of
21 zero, and I can't recall what the cap was.

22 MR. QUAIL: Q: Okay. Another issue that I raised in
23 passing with Panel 1 but was directed to you instead
24 has to do with the expected life, economic life of the
25 plant. And I assume that you've got a copy of the
26 Vancouver Island Generation Project decision handy?

1 September 8th, 2003? If you could please turn to page
2 28. Do you have it handy? At heading 5.1, "Project
3 description," second paragraph:

4 "The VIGP combines cycle plant design,
5 incorporates a General Electric 7FA gas
6 turbine. This is the most mature F-class
7 gas turbine manufactured by General
8 Electric."

9 Skipping down to the beginning of the next paragraph:

10 "The schedule in the application showed
11 an in-service date of July, 2006 and the
12 facility is expected to have a 25-year
13 life."

14 Is that similar to your understanding of the expected
15 life of this plant?

16 MR. ECKERT: A: Well, there's an obligation on the part
17 of the seller to design its plant to a standard where
18 it has a useful life commensurate with the 25-year
19 term. So they do have an obligation to design to a
20 25-year life.

21 MR. QUAIL: Q: I suggest it's not a total coincidence
22 that that also happens -- that is, that the life
23 expectancy, the useful economic life of a gas
24 generator also happens to be the term of the
25 agreement. I put it to you that's not a total
26 coincidence, is it?

1 MR. ECKERT: A: I don't think we arrived at the 25-year
2 term because the useful life of a gas turbine is 25
3 years.

4 MR. QUAIL: Q: So a 25-year project that you put
5 forward yourselves last year, 25-year term of the
6 agreement that was part of the term of the Call For
7 Tenders, 25-year contract, this is just pure
8 coincidence that these -- this number pops up in those
9 three places. Is that what you're saying?

10 MS. HEMMINGSEN: A: It is.

11 MR. QUAIL: Q: All right. Now, turning to page 42.

12 MS. HEMMINGSEN: A: Of the decision?

13 **Proceeding Time 3:40 p.m. T27A**

14 MR. QUAIL: Q: This is of the Vancouver Island
15 Generation Project decision of September 8th, 2003.
16 The first full paragraph:

17 "VIGP would be a relatively efficient
18 generating plant, but this advantage is
19 likely to decline over the 25-year life of
20 the facility. For example, the next
21 generation of General Electric turbines, the
22 7FB model, will be more efficient than the
23 unit chosen for VIGP. VIEC acknowledged
24 that the difference in efficiency is
25 significant. Moreover, VIGP will also
26 compete with more efficient gas-fired co-

1 generation facilities, with generation that
2 is not gas-fired, and with resources like
3 wind and tidal power we do not have the fuel
4 cost. All of these factors are likely to
5 cause some erosion of utilization of VIGP."

6 I put it to you that the same general
7 principle will apply predictably with this plant as
8 well.

9 MR. SOULSBY: A: I apologize. Thank you for reading
10 that out, but you said page 42 of the decision?

11 MR. QUAIL: Q: Yes. That is that given that this plant
12 is expected to be dispatched on an opportunistic
13 basis, and assuming that during the 25-year life of
14 the -- at least the initial term of the agreement,
15 technology will continue to evolve. Today's latest
16 thing is, you know, next decade's dinosaur. That may
17 be overstating it a little. But it will be competing
18 with increasingly efficient new technologies. Isn't
19 that correct? That's quite predictable, is it not,
20 Mr. O'Riley?

21 MR. O'RILEY: A: Yeah.

22 MR. QUAIL: Q: I see you nodding your head.

23 MR. O'RILEY: A: And we tested that scenario with our
24 lower electricity price forecast, which had a lower
25 relationship between power and gas prices.

26 MR. QUAIL: Q: So the dispatch rate would be predicted

1 to decline over the life of the 25 years, isn't that
2 right?

3 MR. O'RILEY: A: It would -- well, we've recorded a
4 number of -- we've talked about, and I won't repeat
5 myself, a number of reasons why the dispatch rate
6 would change, and it's similar to what we've shown
7 here.

8 MR. QUAIL: Q: It would also be competing with cleaner
9 alternate available resources over that period of
10 time, as well as more efficient ones. Isn't that
11 correct?

12 MR. O'RILEY: A: Yes, and those -- cleaner resources
13 are included in the Henwood model, which we're using
14 for part of our price forecasting process.

15 MR. QUAIL: Q: You'd agree with me that your models do
16 not indicate a drop-off in the utilization rate of the
17 plant during the 25-year term of the initial
18 agreement, do they?

19 MR. O'RILEY: A: We're not indicating a profile over
20 time, but there is a substantially lower utilization
21 in our 25 percent or so-called 25 percent recovery
22 case.

23 MR. QUAIL: Q: Assuming that it's running more than 80
24 percent of the time, and if in the latter part of the
25 25 years it's running less, then it must follow that
26 you expect in the first several years it would be

1 running all the time. Isn't that right?

2 MR. SOULSBY: A: I think we covered that off.

3 Yesterday Mr. O'Riley covered off why it doesn't run
4 as much as you might expect in the first few years,
5 and I can confirm, just to make sure -- yes, no longer
6 confidential, that under IR 133.2 the dispatch of the
7 plant actually does decrease slightly over time,
8 starting from about a peak in year 2014 decreasing
9 thereafter.

10 MR. QUAIL: Q: But assuming opportunistic dispatch --
11 I'll repeat the question. If it's predictable that
12 the rate of opportunistic dispatch is going to decline
13 as years pass, it must follow that this plant is
14 expected to be running full out all the time in the
15 first 10 or 15 years of its existence. Is that what
16 you're expecting?

17 MR. SOULSBY: A: No, as I said, Mr. O'Riley explained
18 yesterday that there's a reason why the plant does not
19 dispatch as much as you're suggesting it will in the
20 first few years, and that's due to an overbuild in the
21 reason.

22 MR. QUAIL: Q: Yes. How do you get 80 percent plus
23 average capacity factor over 25 years, given that
24 dynamic? That seems to defy common sense.

25 I note a long delay on the record in
26 responding to that one.

1 MS. HEMMINGSEN: A: I guess what we don't have is these
2 facts and figures right at our ready right now.

3 MR. SANDERSON: I was just going to say --

4 MS. HEMMINGSEN: A: So we're trying to find out how to
5 answer your question as fast as we can.

6 MR. SANDERSON: Mr. Quail, when you finish this cross-
7 examination we'll put you up and see how quick you are
8 at responding to finding stuff in here. I'm not sure
9 I've seen any counsel or any witnesses very capable of
10 quickly moving through this, including, with great
11 respect, yourself.

12 MR. QUAIL: Q: Actually I wasn't eliciting any facts or
13 figures. It actually is a matter of common sense. I
14 put it to you it's a matter of common sense.

15 **Proceeding Time 3:45 p.m. T28A**

16 It's predictable that it's going to be
17 running less and less of the time over 25 years. To
18 average over that time running more than 80 percent of
19 the time, it follows that the first ten or fifteen
20 years it's got to be flat out every minute of every
21 day of every week of every year. Otherwise, how do
22 you get it running 80 percent plus over the 25 years.
23 That's my question.

24 I don't think you have to look anything up
25 anywhere on that. I'd just like an explanation.

26 MR. SOULSBY: A: I agree. And I don't have that figure

1 to hand, but the IR that I sited will enable you to
2 calculate that figure quite readily.

3 MR. QUAIL: Q: Well, I don't doubt that it's going to
4 be running less than a hundred percent of time over
5 the first few years. That's the conundrum that I'm
6 referring to. I'll leave the rest of that for
7 argument.

8 But I suggest to you this whole situation
9 where we've got -- there's enormous pressure in this
10 technology to constantly find refinements and
11 evolutions for greater efficiency, isn't that correct?

12 MR. O'RILEY: A: The technology has seen tremendous
13 improvements over the last 20 years or so, and we've
14 seen a decline in the rate of improvements, and you do
15 run up against the physics of these units and you stop
16 getting those large incremental gains from year to
17 year. So there is that sort of an asymptote that we
18 would expect the efficiencies to go to.

19 MR. QUAIL: Q: Unless there is a leap to some new
20 paradigm that's more efficient.

21 MR. O'RILEY: A: Yes, and we feel we've reflected the
22 likelihood of that in our low heat rate scenario.

23 MR. QUAIL: Q: Twenty-five years is a lot of time for
24 incremental evolution, is it not?

25 MR. O'RILEY: A: It is.

26 MR. QUAIL: Q: Now, I'd suggest to you that this

1 highlights a fallacy in this whole program which is
2 insisting on a resource that will operate for 25
3 years. I put it to you that long-term commitment or
4 lock-in to particular kind of resource in a sector
5 that is subject to evolution and obsolescence doesn't
6 make sense, does it?

7 MS. HEMMINGSEN: A: Well, I'm not sure I agree with you
8 on that front.

9 MR. QUAIL: Q: I didn't think you would, to be frank.
10 Take that as maybe a rhetorical question and for
11 argument. I didn't think actually that you would
12 agree that this proposal is a bad idea.

13 MR. SANDERSON: But you will let her explain why she
14 doesn't agree with you, I'm sure.

15 MR. QUAIL: Q: I certainly will.

16 MS. HEMMINGSEN: A: Within B.C. Hydro's portfolio we
17 want to balance it in terms of long-term and short-
18 term resource commitments and with our flexible system
19 we already have an opportunity to buy a lot of short-
20 terms resources. So in this case our preference was
21 for a long-term resource and it was consistent with
22 the Commission's decision that asked us to look for
23 on-Island generation. The proponents came back and
24 said they needed long-term contracts to facilitate
25 financing. That seemed pragmatic and practical, and
26 there's every risk that prices can actual rise in the

1 future and that this could be a very attractively
2 priced unit.

3 MR. QUAIL: Q: Some questions now about gas price risks
4 and especially the issue of hedging. I think gas
5 price generally is something that's been pretty well
6 trod into the ground, but you've indicated that Hydro
7 is developing a hedging plan or uses hedging to
8 mitigate risk and exposure to short-term price jumps.
9 Isn't that correct?

10 MR. O'RILEY: A: That is correct.

11 MR. QUAIL: Q: And any hedging plan is going to come
12 with a cost. There's a premium that you pay to hedge
13 your gas supply, isn't that right?

14 MR. O'RILEY: A: Yeah, we don't really agree with that,
15 and the idea is that we don't see a bias in the
16 forward prices relative to the spot prices. We're not
17 seeing that the forward price will equal the spot
18 price but we don't see it biased up or down one way or
19 the other, and we are restricting our hedging to the
20 near three-year period where we are not incurring
21 large bit aspreads [sic] or risk premiums to put on
22 these trades. So we don't think we're changing the
23 expected value of our gas cost, only the variability
24 of our gas cost.

25 MR. QUAIL: Q: Thank you. Now, you can hedge against
26 market fluctuations but not against long-term trends,

2 MR. O'RILEY: A: That's pretty much correct, yes. I
3 guess we can mitigate somewhat the impact of a long-
4 term trend but we will, given the structure of the
5 market today, be exposed to the risk of higher prices
6 if there is an upward ship in them over time.

12 MS. HEMMINGSEN: A: It is. If you want to pursue this,
13 it's better pursued on Panel 4. It deals with the
14 cost-effectiveness test.

16 MR. QUAIL: Q: All right, pleased to oblige. Issues
17 about transportation costs having to do with gas,
18 according to the Terasen Gas (Vancouver Island)
19 Resource Plan that was filed as a part of the CFT,
20 natural gas received by Terasen Gas (Vancouver Island)
21 at its compressor station in Coquitlam, from Terasen
22 Gas, is that right?

26 MR. QUAIL: Q: And prices are quoted for gas at

1 Huntingdon Sumas. Presumably there would also be a
2 transportation cost payable to Terasen to get the gas
3 to Coquitlam. Am I missing something, or is this a
4 piece of the link that's missed in your equations?

5 MR. SIMPSON: A: I think for the purpose of their
6 calculating the totals that have been used here,
7 they've assumed that we would be moving that gas under
8 our bypass transportation agreement with -- for
9 Burrard.

10 MR. QUAIL: Q: Okay. That would involve a cost,
11 though, to Hydro.

12 MR. SIMPSON: A: Well, it doesn't involve a cost as
13 long as that agreement is active, because the contract
14 demand under that agreement is greater than what we
15 need for Burrard.

16 MR. QUAIL: Q: Now, having to do with the Trent gas
17 transportation, or lack of an agreement. B.C. Hydro
18 entered into the Elk Falls Island generation project
19 without first securing a long-term gas transportation
20 rate, isn't that correct?

21 MR. SIMPSON: A: Without first having an agreement, did
22 you say?

23 MR. QUAIL: Q: Yes. Yes. With Terasen, what's now
24 Terasen (Vancouver Island).

25 MR. SIMPSON: A: Well, we did have a -- we did have a
26 short-term contract in place.

1 MR. QUAAIL: Q: Yes. You didn't have a long-term -- you
2 hadn't secured your long-term cost for transporting
3 gas to that plant when it went into service, did you?

4 MR. SIMPSON: A: No, that's correct.

5 MR. QUAAIL: Q: And still don't have one, as I think is
6 clear from the evidence today.

7 MR. SIMPSON: A: That's correct, we don't have a long-
8 term agreement.

9 MR. QUAAIL: Q: Now, to put it in the vernacular, I
10 suggest this resulted from Hydro's point of view in
11 Hydro getting hosed on the rates it's been paying for
12 gas transportation, to the Elk Falls facility. Just
13 to illustrate. The main issue there that's been
14 raised by Hydro as having been saddled, by a decision
15 of this Commission, with a share of the contribution
16 of the historical deficiency account that's
17 accumulated on the Vancouver Island pipeline. You
18 felt that this was unfair, didn't you?

19 MR. SIMPSON: A: I think we did -- I mean, that's a
20 matter of record, that we did argue against being
21 saddled with a portion of that accumulated revenue
22 deficiency, yes.

23 MR. QUAAIL: Q: You fought it to the B.C. Court of
24 Appeal.

25 MR. SIMPSON: A: We did.

26 MR. QUAAIL: Q: I can say that, because I was one of the

1 counsel involved in the case, as was my friend Mr.
2 Fulton. And Hydro did this, put up this fight,
3 because the corporation believed that this placed an
4 unreasonable burden on its ratepayers, isn't that
5 correct?

6 MR. SIMPSON: A: Well, I'm not sure we felt it was an
7 unreasonable burden, we just felt that it wasn't an
8 appropriate principle for toll design.

9 MR. QUAIL: Q: Maybe I'll have to produce the *factum*
10 filed on your behalf in the Court of Appeal, but
11 perhaps I can leave that for argument as well. And
12 Hydro lost that appeal in the result, isn't that
13 correct?

14 MR. SIMPSON: A: That's correct.

15 MR. QUAIL: Q: And Hydro fought against the proposed --
16 now implement an amendment to the transportation
17 tolling arrangement between Terasen on Vancouver
18 Island and the joint venture of major industrial gas
19 users on the Island. Isn't that right? You fought
20 against that.

21 MR. SIMPSON: A: I'm not sure we fought against it. We
22 suggested that it should be a matter that was reviewed
23 by the Commission. But the government decided to
24 approve it.

25 MR. QUAIL: Q: You told the government that they
26 shouldn't approve it, and that it was because you did

1 not -- first of all, you told the government that they
2 should not approve the deal, which was subject to
3 Cabinet approval. Isn't that correct?

4 MR. SANDERSON: Mr. Chairman, that doesn't accord with my
5 recollection of the submission Hydro made to
6 government. If that's the issue, I think that Mr.
7 Quail should produce that document and put it to the
8 witness. I'm not going to say that he's wrong, but my
9 recollection's inconsistent with it, which is why I
10 rise. I think we need the document.

11 MR. QUAILE: Q: Hydro resisted the approval of the
12 agreement by the Cabinet, isn't that correct?

13 MR. SIMPSON: A: I -- my recollection is that we
14 suggested that that whole matter should be reviewed by
15 the Commission.

16 MS. HEMMINGSEN: A: And that's consistent with my
17 recollection as well.

18 MR. QUAILE: Q: All right. I reserve the right to
19 produce documents from those proceedings. I didn't
20 come equipped with them today.

21 And for several months, as we've heard,
22 you've been engaged in protracted negotiations with
23 Terasen over your transportation tolls to the Island.

24 **Proceeding Time 3:55 p.m. T30A**

25 During the cross-examination by Mr. Wallace, you were
26 referred to several looming potential cost factors

1 that you assume will be borne by Terasen (Vancouver
2 Island's) core, for example the royal revenues being
3 removed. You recall that testimony yesterday?

4 MR. SIMPSON: A: Yes, I do recall that, and what I was
5 trying to convey to Mr. Wallace was that those are the
6 assumptions that Terasen has made in the modelling to
7 come up with the toll estimates that we've used for
8 the purpose of CFT evaluation.

9 MR. QUAIL: Q: And I put it to you that we have history
10 repeating itself with you coming forward with yet
11 another proposal for a gas-fired plant on the Island
12 and no fixed arrangement to set up -- set the tolls
13 you would pay to supply gas to that plant at your
14 customer's risk.

15 MR. SIMPSON: A: Well, I don't believe it's necessarily
16 history repeating itself. I think I did explain
17 earlier today that as far as we can tell, the tolls
18 that we would pay based on the estimates that Terasen
19 has provided to us, the tolls that we would pay would
20 more than cover their incremental expansion costs
21 associated with their long facility or any required
22 compression expansions on their system. Therefore I
23 don't think the issue is magnified, the issue of
24 having to pay potential underrecoveries from the core
25 market. I don't think that's magnified by Duke Point
26 proceeding.

1 MR. QUAIL: Q: But similarly, you didn't expect to have
2 the Commission make an order that saddled you with
3 part of the cost of the revenue deficiency account
4 either, dealing with Centra. Isn't that correct?
5 Life has its surprises, doesn't it?

6 MR. SIMPSON: A: Yes, it did. I guess we weren't
7 expecting that, but that's the way it worked out. But
8 my point is that I don't think that issue is any
9 different with Duke Point proceeding than without Duke
10 Point proceeding. The potential underrecovery from
11 the core market is going to be there in any event.

12 MR. QUAIL: Q: And your evidence has been that you
13 anticipate by November of this year having the deal in
14 place dealing with your capacity tolls on Vancouver
15 Island Pipeline. Is that your evidence? I think
16 maybe that was Mr. Soulsby's evidence. I might be
17 mistaken. Somebody testified that they expected by
18 November of this year, they'd expect to have that
19 issue resolved what the tolls are going to be.

20 MR. SIMPSON: A: Well, I'm not sure we -- what we would
21 have expect to have by November of this year is at
22 least some sort of a short-term transportation
23 agreement, perhaps similar to what we had with Island
24 Co-gen prior to it achieving commercial operation, and
25 that that would give Terasen sufficient certainty to
26 proceed with perhaps a smaller expansion at its LNG

1 facility, in order to provide the requirements of Duke
2 Point by 2007.

3 MR. QUAIL: Q: Well, obviously November of this year is
4 way too late, way past the point of no return as far
5 as the Duke Point project is concerned, isn't that
6 correct?

7 MR. SIMPSON: A: I'm not sure I can agree with that.

8 MR. QUAIL: Q: By that point you're thoroughly -- I
9 mean the deal's in place; you're bound by it.
10 Assuming that the Commission were to approve it, it's
11 way too late to slam any brakes on, November of 2005,
12 if you discover that there's some bad news on the
13 tolls that ultimately are going to be approved for
14 that capacity.

15 MR. SIMPSON: A: Well, Mr. Quail, I think this gets
16 back to the development risk assessment that we did
17 for gas transportation for the Duke Point Project.
18 And we believe that although the LNG facility may not
19 -- if we don't make a commitment before November 2005,
20 it may be difficult for Terasen to get the LNG
21 facility in by 2007. We believe that they can get a
22 compression expansion in by 2007, which would supply
23 most of the requirements of Duke Point.

24 MR. QUAIL: Q: Yes, I'm not suggesting that it won't be
25 physically possible to have the gas delivered.
26 Presumably at some price, it's available. What I'm

3 MS. HEMMINGSEN: A: Well, I guess we're satisfied that
4 there's sufficient options that we can avail ourselves
5 of, of other paths, including where we directly paid
6 for the compression as we did with ICP, and/or pursue
7 direct delivery, and/ or another of measures.

9 MR. QUAIL: Q: What other measures?

15 MR. QUAIL: Q: So other measures, you're talking about
16 the potential for LNG deliveries to the plant? Is
17 that one of the possibilities you're referring to?

20 MR. SIMPSON: A: Well, there are some proponents that
21 have come forward and say they can have direct
22 delivery LNG to Vancouver Island by 2007. Now, we're
23 a little skeptical that it can be done that quickly.
24 I think the most likely option is either if we have a
25 long-term agreement with Terasen, shortly after the
26 conclusion of this proceeding, and the Duke Point

1 project goes ahead, then there's a very good chance
2 they could have their LNG expansion in place. If we
3 don't have a long-term agreement, I think as long as
4 we have a short-term agreement by November of 2005 we
5 could get a compression expansion in place.

6 So either way, we're going to be able to
7 meet the requirements of the Duke Point project in
8 2007.

9 MR. QUAIL: Q: Why are you skeptical, I'm not
10 suggesting I'm disagreeing with you, about the
11 possibility of bulk deliveries of LNG to the site by
12 2007. Could you please explain why that's unlikely?

13 MR. SIMPSON: A: I think we're -- the reason we're
14 skeptical is that that is a fairly new technology, if
15 you like. We're not aware of that being done
16 elsewhere, and although they make representations that
17 they can achieve it within that timeline, there's
18 always the unexpected, particularly when you're
19 dealing with something new.

20 MR. QUAIL: Q: And given that Duke Point is also the
21 site of a B.C. Ferries terminal, I assume you're not
22 contemplating that LNG would be off-loaded at Duke
23 Point.

24 MR. SIMPSON: A: Well, I'm not sure we want to get into
25 the details of this, but some of the proponents have
26 indicated that they don't necessarily have to get

1 right into the shore, that they can do it via an
2 offshore pipeline.

3 MR. QUAIL: Now, Mr. Chairman, I had a series of
4 questions about the selection, and open, competitive
5 process that's been thoroughly traveled ground. But I
6 do have something that might actually be useful that I
7 produce, which is a chart that, I think, explains some
8 territory that people were trying to make clear. This
9 lays out, I think fairly clearly, with references to
10 the material, to the number of bids at different
11 stages, and people dropping out of the picture.

12 So what I'll do is, I'll put this to the
13 panel, and if it does look like a -- I don't think
14 you've got that one. So what this shows, just to
15 explain it, in the -- lists the various stages of the
16 CFT on the column on the left. So Stage 1 is pre-
17 qualified bidders, tenders, projects, 11 bidders with
18 22 projects, and there's the reference, main report
19 page 8. Of those natural gas projects were 20 and 8
20 were Vancouver Island gas or generation project type
21 projects, and with the reference there. So you can
22 see through the five stages the sort of drop-off of
23 numbers.

24 It notes one anomaly, which probably isn't
25 particularly material for present purposes, but it
26 appears that Stage 1 there were 8 VIGP-type projects,

1 pre-qualified bidders, but 10 according to another
2 answer, post-tender workshop submissions of detailed
3 project descriptions. I don't think that's really
4 material to the picture that's emerging. I don't know
5 if you have an explanation of that anomaly.

6 You see where it says, "Note this response
7 inconsistent with the previous line."

8 MR. SOULSBY: A: Thank you.

9 MS. HEMMINGSEN: A: Thank you.

10 MR. QUAIL: Q: If anybody has any readily-available
11 explanation; if not, I don't think it's that material.

12 Anyway, just looking at this, does this
13 appear to accurately reflect the shake-down of the
14 participants in the process, from the first to the
15 last stage?

16 MS. HEMMINGSEN: A: I think so.

17 MR. SOULSBY: A: I would say that it fairly represents
18 it. The one I can't confirm at the moment is the
19 breakdown in the post-tender workshop.

20 MR. QUAIL: Q: Okay. So, subject to that issue, it
21 appears that it may be a useful document, and I
22 suggest it be marked as an exhibit in the proceedings.

23 **Proceeding Time 4:05 p.m. T32A**

24 MR. FULTON: C3-12, Mr. Chairman.

25 THE HEARING OFFICER: Marked C3-12.

26 (TABLE ENTITLED "B.C. HYDRO CFT PROJECTS", MARKED AS

1 EXHIBIT C3-12)

2 MR. SANDERSON: Mr. Chairman, the one thing I would ask
3 is -- I'm fine with this, but I think the panel should
4 be given the opportunity overnight to just confirm
5 that the numbers are in fact correct in here and
6 populate this table with the correct numbers if
7 they're not.

8 MR. QUAIL: Yes. It's intended as an aid and not really
9 as evidence in its own right, but it might facilitate
10 some of the things we've been tossing around.

11 And those are the questions I have for you,
12 thank you very much.

13 MR. FULTON: GSX Concerned Citizens Coalition.

14 THE CHAIRPERSON: I might add that if you thought it
15 would be helpful to attempt to what do Mr. Quail did
16 but differently, I'd be interested in looking at that
17 too. I had the same challenge that Mr. Quail did and
18 I actual admire his thoroughness in pulling all of
19 this together. If it can be improved upon, I guess,
20 is maybe my suggestion, I would suggest that you do
21 so.

22 So if you want to create another document
23 that is trying to accomplish what Mr. Quail is
24 endeavouring to accomplish then I think that would be
25 a good idea too.

26 MR. ANDREWS: Mr. Chairman, Madam Commissioner, Members

1 of the Panel, my cross-examination will be based in
2 part on two documents that I might as well identify
3 now so that you can have them ready. One is the DPP
4 response to the GSX CCC IR.

5 THE CHAIRPERSON: Mr. Andrews, before you begin, you need
6 to advise me as to whether or not you wish to ask any
7 questions about the QEM model.

8 MR. ANDREWS: I don't propose to ask any questions
9 regarding the mechanics of the QEM model. There is
10 one area that may touch on something that I don't
11 think deals with the mechanics but deals with the QEM
12 itself.

13 THE CHAIRPERSON: Please proceed.

14 MR. ANDREWS: The second document that I'll be referring
15 to, and this may require a bit of explanation, there
16 is an Exhibit B-57 which is a letter from Lawson
17 Lundell on behalf of B.C. Hydro to me. It's a two
18 page letter. The exhibit itself is only the letter
19 and I understand not an attachment which is referred
20 to in the letter. My understanding is that this is
21 counsel for Hydro's attempt to assist the Commission
22 by providing me with responses to the written
23 questions that I posed to B.C. Hydro which we are
24 referring to as the second round of GSX CCC IRs. His
25 responses are in writing here, by definition, but they
26 are not in the format of an IR response and he has

6 And I can say that many of the answers here
7 will be in the first category. We'll simply take them
8 as information. Some we will ask to be confirmed in
9 writing and I don't need to raise them with the panel
10 at this time. There are a few points in here that I
11 will ask the witness panel about and I suppose we can
12 get to it when we go there.

14 The question remaining is what to do with
15 what I would suggest be a witness aid rather than an
16 exhibit, because I understand that Mr. Sanderson did
17 not intend this to be an exhibit, but since I'm going
18 to be referring to it, the slippery slope is that it
19 would end up being an exhibit unless we are clear that
20 it is not in the first place.

Allwest Reporting Ltd., Vancouver, B.C.

1 some of these he needs to do that with and then if he
2 wants to ask for follow up or whatever, he can do
3 that. So it may be a bit labourious but if he would
4 just put the question in a form that he thinks based
5 on this he can obtain agreement from.

6 My hope is that's a lot more expeditious
7 than it would have been if we hadn't provided him with
8 these anticipated answers.

9 THE CHAIRPERSON: Mr. Sanderson, just so that I
10 understand, are these a set of the supplemental
11 responses that you mentioned yesterday that you made
12 available to counsel in response to the second round
13 of IRs that were in a form that you didn't want to
14 file but that were made available to counsel so that
15 they could ask questions about those and at a later
16 time it might have been filed but wasn't necessarily
17 going to be so?

18 MR. SANDERSON: Quite. Exactly so.

19 THE CHAIRPERSON: And now we have these, if you will,
20 entered as an exhibit when yesterday you mentioned
21 that you didn't intend them to be.

22 MR. SANDERSON: No, I don't understand them to be
23 entered as an exhibit at the moment.

24 THE CHAIRPERSON: Okay.

25 MR. SANDERSON: My cover letter is entered as an
26 exhibit, but I don't believe you're supposed to have

1 an attachment to it and the record ought not to have
2 an attachment to it.

3 THE CHAIRPERSON: Yes, I do.

4 MR. SANDERSON: Oh. Well, that's an error. Thank you.
5 Yeah, the intent was as you described it as distinct
6 from -- and as I described it yesterday as distinct
7 from what appears to have happened.

8 THE CHAIRPERSON: Thank you. Mr. Andrews, I need you to
9 give your first document reference, please.

10 MR. ANDREWS: Excuse me, I didn't hear the question.

11 THE CHAIRPERSON: You said you had two documented
12 references. I have one of them.

13 MR. ANDREWS: The first one is the DPP response to GSX
14 CCC information request and I don't offhand know what
15 the exhibit number would be for that.

16 THE CHAIRPERSON: I need that exhibit number. I've read
17 the responses but I need the exhibit number. If
18 you're going to refer to it.

19 MR. ANDREWS: Thank you. C17-12

20 **CROSS-EXAMINATION BY MR. ANDREWS:**

21 MR. ANDREWS: Q: Ms. Hemmingsen, I'm going to first ask
22 you about the extension of the completion date for the
23 electricity purchase agreement. We heard yesterday
24 that it had been extended from February 14th to
25 February 18th, 2005, is that correct from your
26 perspective?

1 MS. HEMMINGSEN: A: My understanding of what we
2 outlined is we were going to make that amendment to
3 true up the dates that a decision would be rendered
4 with contract terms.

5 MR. ANDREWS: Q: Do you see any obstacles in the way of
6 that happening?

7 MS. HEMMINGSEN: A: I haven't had a chance to talk to
8 Duke Point about executing that. Yes, but I don't
9 see any obstacles.

10 MR. ANDREWS: Q: All right, from B.C. Hydro's
11 perspective, are you operating on the assumption that
12 if you and Duke Point Power were to agree, the
13 completion date for the EPA could be extended further?

14 MS. HEMMINGSEN: A: That's not our position. We're
15 running up against the eleven hour and Duke Point
16 needs to get active in building the facility and
17 ensuring that it's delivered by May 2007.

18 MR. ANDREWS: Q: Well, that in response to why you
19 would prefer not to, but if you had reason to want to
20 keep the EPA alive, is it not correct that between you
21 and DPP with their consent, you could mutually agree
22 to extend the completion date for the EPA?

23 MS. HEMMINGSEN: A: Well, you can always mutually
24 agree. We also have an option to our favour to extend
25 for another 90 days. We'd be very concerned about
26 doing that in light of the timing crunch that we're

1 running up against.

2 MR. ANDREWS: Q: Have you turned your mind to the --
3 whether you would take as what you need to begin
4 completion of the contract and work towards achieving
5 the COD date?

6 **Proceeding Time 4:15 a.m. T34**

7 Have you turned your mind to whether a decision by
8 this Panel, without reasons, would be sufficient? You
9 appreciate the distinction between a decision with
10 reasons and a decision without? Maybe I'll ask that
11 first.

12 MS. HEMMINGSEN: A: Oh, and obviously it depends on
13 what that decision is.

14 MR. ANDREWS: Q: Right, well let's assume that the
15 decision was not to disallow any of the terms of the
16 EPA, but with reasons to follow. Would you consider
17 that sufficient certainty to allow you to proceed with
18 implementation, or would you want to wait until you
19 had the reasons so as to be able to presumably
20 evaluate the prospect of success of an appeal or
21 whatever?

22 MR. ECKERT: A: I think the terms of the agreement are
23 fairly specific in Section 3.1 of the *EPA*, and that is
24 if within the 90-day period we have an order that is
25 not adverse to either party, that there is a
26 determination under the terms of this agreement.

1 So if that order -- say there was -- I
2 don't know what you mean by "with reasons". I am
3 interpreting your question to mean that that means
4 there is no changes to the agreement that would be
5 adverse to either party. Is that correct?

6 MR. ANDREWS: Q: No, that's not correct. My question,
7 if the Commission were to issue a decision in two
8 parts, the first part of which contained a one-word
9 answer to a question such as that the EPA is allowed,
10 yes or no, and then the rest of the first part said
11 reasons will follow, and then at some period of time
12 later the Commission issued the full set of reasons as
13 to why, explain why it came to that conclusion; if
14 that were to happen, that's what I'm describing as a
15 decision with reasons to follow.

16 And the question is, does that format, a
17 decision with reasons to follow, provide the certainty
18 that you need at the time of the original decision
19 with reasons to follow, to proceed with the project?

20 MR. ECKERT: A: I think I interpret that as being a
21 decision that does not alter the terms of the
22 contract, and therefore there are no changes which
23 could be adverse to either party, and so no
24 termination right arises. And that's --

25 MR. ANDREWS: Q: Well, let me make the hypothesis more
26 defined. Let's say that the Commission's decision is

1 that it will not disallow any provisions of the EPA
2 with reasons to follow. Now does that give you
3 sufficient certainty to proceed with the project?

4 MS. HEMMINGSEN: A: We're required to proceed with the
5 project.

6 MR. ECKERT: A: Yeah, I don't think we have a choice in
7 that event. I don't think a termination right arises
8 in that circumstance, so that the contract is --
9 you've essentially satisfied the condition and there
10 would be no right to terminate by either party.

11 MR. ANDREWS: Q: Have you turned your mind to the
12 possibility of an appeal to the Court of Appeal? And
13 I'm asking this from a management and planning
14 perspective, not to the legal merits of any appeal.

15 MS. HEMMINGSEN: A: Well, it certainly wasn't foremost
16 in our minds when we designed the EPA contract.

17 MR. ANDREWS: Q: No, but you're sitting here telling
18 the Panel that there's a very urgent need for this
19 project and you're planning all sorts of details of
20 it. I'm asking whether you've contemplated the impact
21 of an appeal to the Court of Appeal.

22 MR. ECKERT: A: Well, I think that's a circumstance
23 that's not addressed within the four corners of this
24 EPA, and so --

25 MR. ANDREWS: Q: Well, I'm not asking you if it's
26 addressed to the EPA. I'm asking have you, in terms

1 of your level of decision-making at B.C. Hydro,
2 contemplated this issue? And if the answer is no, so
3 be it.

4 MR. SOULSBY: A: I think that the answer is that it's
5 contemplated in the context of the contingency plans
6 which we have been working on, which we have shelf-
7 ready. And as I think I testified yesterday, whether
8 or not we decide to invoke any contingency plans based
9 on a negative decision, for example, with reason, if
10 there were reasons to follow, would depend on what
11 those reasons are. But as Mr. Eckert --

12 MR. ANDREWS: Q: The most recent hypothesis was a
13 positive from Hydro's perspective, decision with
14 reasons to follow.

15 MS. HEMMINGSEN: A: As we've said, there's no basis for
16 us not to proceed with the contract at that point.

17 **Proceeding Time 4:20 p.m. T35A**

18 MR. ANDREWS: Q: And that's my question is, have you
19 turned your mind to the effect of an appeal in that
20 circumstance?

21 MS. HEMMINGSEN: A: Well, there's --

22 MR. ANDREWS: Q: You would not at that point have had
23 an opportunity to review the decisions. Would that
24 not leave you somewhat concerned that your -- the
25 certainty that you might hope for is not --

26 MS. HEMMINGSEN: A: Well, what you appear to be asking

1 me is whether I have a legal opinion as to whether or
2 not --

3 MR. ANDREWS: Q: Absolutely not, and I made it very
4 clear. I was asking you from a management, planning
5 perspective whether you have contemplated the -- in
6 terms of the certainty that you require, whether a
7 reason with decisions -- a positive -- from Hydro's
8 perspective, decision with reasons to follow would
9 provide the certainty that you need to go forward.
10 And my -- it sounds to me so far, tell me if I'm
11 wrong, that your answer is no, that you haven't turned
12 your mind to that.

13 MS. HEMMINGSEN: A: Well, I think what is --

14 MR. SANDERSON: Just -- Ms. Hemmingsen, excuse me just a
15 moment. It seems to me that there's two parts to
16 this. You've got the answer to the part that I think
17 is germane. Mr. Eckert has said that insofar as he
18 understands, from his perspective the rights of the
19 parties, the appeal situation wasn't contemplated
20 within the four corners of the agreement. So that in
21 terms of the design of the process and its outcome,
22 there is no contemplation of that particular event.

23 What would happen if that occurs is to ask
24 Hydro then to hypothesize about its relationships, its
25 future relationships with Duke, which I'm hesitant to
26 have done on the record. What you can -- what you've

1 obtained, and what is the fact, is that the existing
2 contractual arrangements don't deal with that
3 situation.

4 You can make of that in argument what you
5 will, but I'm not sure that you can require Hydro to
6 disclose whatever strategy it may have, moving
7 forward, should that circumstance arise, in terms of
8 its dealings with Duke or with anyone else.

9 MR. ANDREWS: I'm not -- if that was an objection to a
10 line of questioning, I'm not sure there --

11 MR. SANDERSON: It was.

12 THE CHAIRMAN: It's an objection to the hypothesis that
13 you're putting to this panel. You've asked -- Mr.
14 Sanderson has said, you've established the record with
15 respect to the EPA, and the design. Both did not
16 contemplate the hypothesis that you're making.

17 MR. ANDREWS: The hypothesis is stated in a Commission,
18 either Order or letter.

19 MR. SANDERSON: No.

20 MR. ANDREWS: Contemplating a decision with reasons to
21 follow. There's nothing --

22 MR. SANDERSON: I'm sorry, it's not.

23 MR. ANDREWS: -- abstract about it.

24 MR. SANDERSON: Now --

25 MR. ANDREWS: I'll indulge my friend's interruption, if
26 he would like.

1 MR. SANDERSON: Well, the reason for the interruption is
2 that the confusion confused the witnesses first, and
3 now it's starting again.

4 There are two different propositions that
5 have been put. One proposition is, there's a decision
6 without reasons. The second, which is entirely within
7 Mr. Andrews' control, if he's speaking of his own
8 client, is whether there's appeal. And I rose, and
9 his questions for the last five minutes were on the
10 question of appeal, which have nothing to do with
11 anything the Commission has said, it has to do with
12 whether or not the agreement contemplated that Mr.
13 Andrews or another party might launch an appeal
14 seeking judicial intervention in this process after it
15 was done. That's been answered, on the record.

16 MR. ANDREWS: Can I just explain. The two are very, very
17 different. But they're not unrelated, because in
18 terms of certainty and the -- certainty that Hydro
19 would require to begin the work on the project, the
20 connection is that Hydro would have no ability to
21 evaluate the likelihood or possible success of an
22 appeal until it sees the reasons. And until -- and so
23 from that point of view, if I were to get an answer
24 that said "No, we're not going to go ahead with the
25 project until we get the reasons," then that affects
26 the timing of the project, and the timing of the

1 panel's decision and reasons.

2 It seems to me it's an extremely practical
3 and legitimate question.

4 MR. ECKERT: A: I guess I would suggest that the
5 contract is not -- there's no excuse for B.C. Hydro to
6 terminate if there's an Order which does not set aside
7 a term or condition of the contract that's adverse to
8 B.C. Hydro based on the reasons that support the
9 decision. So there is no -- there's no right that
10 arises out of the reasons, it arises out of the -- an
11 adverse condition that's attached to the Order.

12 MR. ANDREWS: Q: So just so that I --

13 THE CHAIRMAN: Mr. Andrews, I'm not finding this very
14 helpful. You should move on.

15 **Proceeding Time 4:25 p.m. T36A**

16 MR. ANDREWS: Q: Ms. Hemmingsen, if I understood you
17 correctly earlier today, you acknowledged that only
18 gas-fired projects were evaluated by the portfolio
19 spreadsheets, is that correct?

20 MS. HEMMINGSEN: A: That's the only tendered projects
21 that passed the mandatory criteria and could be
22 assembled into portfolios.

23 MR. ANDREWS: Q: And so the answer is yes?

24 MS. HEMMINGSEN: A: Yes.

25 MR. ANDREWS: Q: And in response to a series of
26 questions from a number of the previous questioners

1 about the gas price risk, my understanding of the
2 conclusion of it all is that what you are saying is
3 that the gas price risk being taken by B.C. Hydro
4 benefited non-gas projects as well as gas projects and
5 the reason that it did so was that non-gas projects
6 could be combined with gas projects and thereby be
7 evaluated in a portfolio spreadsheet which, absent the
8 leg up to the gas-fired component of that portfolio,
9 they would not be eligible to enter into. Is that the
10 essence of your --

11 MS. HEMMINGSEN: A: That's the concept. And what
12 happened is, unfortunately one of those proponents was
13 non-compliant. Otherwise they would have been
14 assembled into said portfolio.

15 MR. ANDREWS: Q: So in the result, Hydro taking the gas
16 price risk favoured gas-fired projects and might have
17 favoured or helped to assist a non-gas-fired project,
18 but it didn't turn out to actually happen that a non-
19 gas-fired plant -- project rather, was combined so as
20 to be evaluated.

21 MS. HEMMINGSEN: A: Right. So the design supported
22 that and the outcome because a bidder chose to submit
23 a non-compliant bid, did not serve that. So two
24 different issues.

25 MR. ANDREWS: Q: Well, you are --

26 MS. HEMMINGSEN: A: We can't be responsible for --

1 MR. ANDREWS: Q: I'm not sure why you deflecting this
2 to a non-compliant bid. You expect to have -- the
3 process is designed for compliant bids and your
4 response was that the -- I'm not -- are you changing
5 the response?

6 MS. HEMMINGSEN: A: The process is designed to attract
7 bidders to submit compliant bids. To the extent a
8 bidder submits a non-compliant bid, that's not B.C.
9 Hydro's issue, it's the bidder's issue.

10 MR. ANDREWS: Q: None of my questions related in the
11 least to a non-compliant bid. That's why I'm
12 wondering why you've inserted that into the
13 discussion.

14 MS. HEMMINGSEN: A: Well, it does because that's the
15 reason that you didn't get the outcome that you're
16 pointing to.

17 MR. ANDREWS: Q: Okay. Let me put it to you again
18 since you seem to not --

19 MS. HEMMINGSEN: A: The process wasn't flawed. The
20 process wasn't flawed. It allowed those bidders to
21 tender in.

22 MR. ANDREWS: Q: You've offered the explanation that
23 Hydro taking the gas price risk did not unfairly
24 benefit gas-fired projects because -- and this I
25 acknowledge is a stretch for many people, but the
26 rationale is that it benefited non-gas-fired projects

1 because they could be combined together with a
2 benefited gas-fired project and evaluated. And my
3 question is but as it turned out, that didn't happen,
4 is that right?

5 MS. HEMMINGSEN: A: Yeah, for a different reason than
6 the design of the process.

7 MR. ANDREWS: Q: Thank you. Load shedding. Hydro sees
8 demand management as a permanent reduction in
9 electrical load. Is that a fair statement?

10 MS. HEMMINGSEN: A: Those are the programs that Hydro
11 has pursued under PowerSmart to date.

12 MR. ANDREWS: Q: Temporary load reduction is not within
13 Hydro's portfolio of what it considers to be
14 acceptable responses or facilities except in
15 exceptional circumstances, is that also correct?

16 MS. HEMMINGSEN: A: At this point we don't envision
17 relying on them to meet long-term reliability
18 standards.

19 MR. ANDREWS: Q: All right. That was a fairly nuanced
20 answer. Would you care to elaborate on that? Are you
21 referring to the N minus 1 WECC requirements?

22 MS. HEMMINGSEN: A: That's right. And BCTC made a
23 preliminary evaluation of Norske's proposal and
24 outlined the steps that they would take to prove that
25 up, whether in fact it could be relied on for
26 reliability purposes.

1 MR. ANDREWS: Q: So my question is, is it correct that
2 B.C. Hydro does not consider temporary load reduction
3 to be within its portfolio of acceptable facilities or
4 options? Not whether it meets WECC N minus 1
5 criteria. That's an interesting and separate issue.

6 **Proceeding Time 4:30 p.m. T37A**

7 MS. HEMMINGSEN: A: We're currently not pursuing that
8 as a long-term reliability option, no.

9 MR. ANDREWS: Q: The environmental assessment
10 certificate, and other environmental permits. I'm
11 confused, frankly, by the evidence that's emerged so
12 far as to whether those -- let's talk about the
13 environmental assessment certificate in particular;
14 has in fact been transferred from VIGP to DPP, or
15 whether it is anticipated that it will be transferred.
16 Can you -- anyone on the panel clarify that?

17 MR. ECKERT: A: I can clarify that. The environmental
18 certificate -- or the environmental assessment
19 certificate is in the name of Vancouver Island Energy
20 Corporation. And those -- and the shares in VIEC will
21 be transferred to Duke -- DPPLP at the closing of the
22 VIGP asset transfer agreement. So when the -- so 90
23 days after execution of the agreement, that's when --
24 absent no ruling by the Commission or an adverse
25 ruling by the Commission, there would be a closing and
26 that -- and the shares in VIEC would be transferred.

1 MR. ANDREWS: Q: And to continue, the shares in VIEC
2 are transferred, and what, with respect to the
3 environmental assessment certificate --
4 MS. HEMMINGSEN: A: They -- they get the rights to
5 those --
6 MR. ECKERT: A: Well, VIEC -- I'm sorry.
7 MS. HEMMINGSEN: A: Transferring the shares conveys
8 those assets within VIEC to Duke Point Power.
9 MR. ANDREWS: Q: Your position is that the mere
10 transfer of the shares transfers an environmental
11 assessment certificate from one holder to another?
12 MR. ECKERT: A: Well, Duke -- DPLP would own the shares
13 in VIEC, which would -- which is the holder of the
14 environmental certificate.
15 MR. ANDREWS: Q: Oh. So in -- you're not contemplating
16 transferring this -- the environmental assessment
17 certificate at all. You're selling VIEC to DPP. Is
18 that right?
19 MR. ECKERT: A: That's correct.
20 MS. HEMMINGSEN: A: Yes.
21 MR. ANDREWS: Q: Okay. So all of the mention, all the
22 talk about transferring the permits is not -- is not
23 correct. You're talking about selling VIEC and
24 permits in its name would go -- follow as a matter of
25 course.
26 MR. ECKERT: A: Any assets to VIEC would remain with

1 VIEC.

2 MR. ANDREWS: Q: Thank you. That certainly clarifies a
3 number of questions. Why, Mr. Eckert, did you say
4 that DPP had given notice -- had declared that it had
5 met all material permits? Or in this context, now,
6 what material permits would it have, if it's acquiring
7 all its material permits by the acquisition of VIEC?

8 MR. ECKERT: A: The election that DPP made is that upon
9 the closing of the VTA, they would have all material
10 permits.

11 MR. ANDREWS: Q: So when you said earlier that they had
12 -- they had declared it in the present tense, that
13 wasn't -- I didn't understand that correctly. You
14 mean to say that they will declare that if and when
15 the EPA closes?

16 MR. ECKERT: A: They declared in their tender that they
17 -- there was a special -- it was a special term and
18 condition, in the last Appendix of the EPA, I believe,
19 and that was an election that they could make, and
20 that election specifies, as I recall, that at the
21 closing of the VTA they would have all material
22 permits. And --

23 MR. ANDREWS: Q: They would have that because they
24 would have, upon closing, acquired VIEC.

25 MR. ECKERT: A: That's correct.

26 **Proceeding Time 4:35 p.m. T38A**

1 MR. ANDREWS: Q: Okay. Dual fuel capability. I 'd
2 like to refer you to Hydro's response to BCUC IR
3 2.47.9. And while you're at it, there's a 2.47.11.
4 You have those? Just look at 2.47.11 first.

5 MS. HEMMINGSEN: A: Well, I don't have that one. I
6 have 47.9.

7 MR. ANDREWS: Q: It's two pages later in my version.
8 This question has to do with gas supply to Duke Point
9 and possible limitations on it. And in the context of
10 answering that question and explaining how Hydro would
11 go about getting gas to Duke Point, Hydro says that it
12 is investigating dual fuel for Duke Point. Are we on
13 the same page? Is that correct? Okay, well, if it's
14 not on the page then let me ask you --

15 MS. HEMMINGSEN: A: Okay, it says, and maybe you can
16 point me to the paragraph, it says:

17 "If B.C. Hydro can secure dual fuel
18 capability at Duke Point..."

19 Does it say B.C. Hydro is securing dual fuel
20 capability?

21 MR. ANDREWS: Q: Is B.C. Hydro investigating dual fuel
22 capability?

23 MS. HEMMINGSEN: A: Well, this IR points to if we can
24 secure it, it's another way that we can meet the gas
25 requirements to operate Duke Point. This one that you
26 referred me to, 47.9, says:

1 "B.C. Hydro also intends to investigate the
2 option of implementing dual fuel capability
3 at Duke Point."

4 MR. ANDREWS: Q: All right, and are those answers
5 correct?

6 MS. HEMMINGSEN: A: Yes.

7 MR. ANDREWS: Q: Does Hydro currently intend to
8 investigate the option of dual fuel at Duke Point?

9 MS. HEMMINGSEN: A: Well, we are waiting to hear the
10 outcome of this hearing and further negotiations and
11 discussions with Terasen. It is an option for us to
12 pursue.

13 MR. ANDREWS: Q: And the mechanism would be that if you
14 don't get the terms that you want to get from Terasen,
15 you would pursue dual firing with Duke Point?

16 MS. HEMMINGSEN: A: It's one of the options that we
17 have, yes.

18 MR. ANDREWS: Q: And have you looked at the -- this is
19 an option that you have in order to be able to achieve
20 250 megawatts from Duke Point on a reliable 24 hour a
21 day basis, when called upon in 2007-08?

22 MS. HEMMINGSEN: A: In the event that we cannot reach a
23 solution with Terasen.

24 MR. ANDREWS: Q: Okay, so the idea that the rationale
25 for the Duke Point plant is to provide reliable power,
26 among other periods of time, in the winter of 2007-08.

1 And what you're indicating here is that you may not
2 have enough gas to fire Duke Point so as to produce
3 252 megawatts for 24 hours a day, and you're saying
4 that your contingency is -- if you don't get what you
5 want, you will pursue dual fire -- dual fuel for DPP?

6 MS. HEMMINGSEN: A: Our preferred course of action is
7 to negotiate an arrangement with Terasen to provide
8 that. In the event that we cannot complete an
9 arrangement with Terasen, we have a number of options.
10 This is one of them.

11 MR. ANDREWS: Q: Have you gone any farther than
12 identifying it as an option? Have you considered, for
13 example, how long it would take you to get regulatory
14 approval of a change like that?

15 MS. HEMMINGSEN: A: We've made some preliminary
16 estimates of that. We're familiar with the process,
17 with ICP that was recently fitted with dual fuel
18 pursuant to its contract.

19 **Proceeding Time 4:40 p.m. T39**

20 MR. ANDREWS: Q: And what was the conclusion that you
21 came to as to how long it would take to get regulatory
22 approval?

23 MS. HEMMINGSEN: A: I don't have that information
24 handy.

25 MR. ANDREWS: Q: Will you undertake to provide that?

26 MR. SANDERSON: So you want to know whether there has

5	Information Request
---	---------------------

22 MR. ANDREWS: Q: Now, I just wanted to confirm that the
23 capacity deficiency which Hydro is proposing this
24 plant to address, is that deficiency on Vancouver
25 Island between the time of the zero rating of the HVDC
26 system and the in service date of the proposed 230

1 kilovolt transmission line, is that correct? Not
2 stating what those dates are, but that's a way to
3 describe the duration of the capacity deficiency.

4 MS. HEMMINGSEN: A: Yes, the deficiency is driven by
5 the de-rating of the cable.

6 MR. ANDREWS: Q: And ends when the 230 kV line comes
7 into service?

8 MS. HEMMINGSEN: A: Correct.

9 MR. ANDREWS: Q: Thank you.

10 The cost of the capacity which Hydro is
11 proposing to purchase to meet this deficiency is \$35
12 million per year net present value. Is that roughly
13 accurate? And I'm going to refer you to the DPP
14 answer if you want further.

15 MS. HEMMINGSEN: A: I'll get Mr. Eckert to confirm
16 that.

17 MR. ANDREWS: Q: You're pausing. I'll point you --
18 this isn't a trick question. The DPP answer to IR
19 from GSX CCC on page 10, question 1.10.2. Do you see
20 the question there?

21 **Proceeding Time 4:43 p.m. T40A**

22 MS. HEMMINGSEN: A: I see the question and Mr. Eckert
23 can confirm whether that's the charge per year.

24 MR. ANDREWS: Q: Perhaps you could read the question
25 and give the answer for the record, Mr. Eckert.

26 MR. ECKERT: A: "Please confirm that the costs

1 of capacity provided by DPP is approximately
2 \$35,078,400 per year for 252 megawatts not
3 including adjustment for reliability?"

4 And the response is:

5 "1.10.2 confirmed."

6 MR. ANDREWS: Q: Do you agree with that conclusion?

7 MR. ECKERT: A: Yeah, I come to a slightly different
8 number, actually.

9 MR. ANDREWS: Q: What is your number?

10 MR. ECKERT: A: It would be just a tad higher, right at
11 \$36 million.

12 MR. ANDREWS: Q: Thank you. And then question 1.10.4
13 asks for the net present value of the capacity
14 provided by DPP at 252 megawatts over 25 years
15 including the discount rate. Can you, for the record,
16 read the response?

17 MR. SANDERSON: No. Mr. Chairman, this is an exhibit,
18 this one. This isn't -- this is before everybody.
19 It's quite sufficient to just ask whether Mr. Eckert
20 agrees with the responses provided in Exhibit C17-12.

21 MR. ANDREWS: Q: Well, I will read it then. The
22 response is:

23 "The discounted cost of the bid capacity
24 change is \$308,251,331 at a discount rate of
25 8 percent for 25 years to 2004."

26 Do you agree with that answer?

1 MR. ECKERT: A: I'd have to do the math to do that and
2 I can't discount that in my head, quite frankly. Not
3 -- and I don't trust my calculator skills quite well
4 enough to --

5 MR. ANDREWS: Q: Could you undertake to provide that
6 number?

7 MR. ECKERT: A: Sure.

8 MR. ANDREWS: Q: Thank you.

9 **Information Response**

10 MR. ANDREWS: Q: Ms. Hemmingsen, you said earlier
11 today, "We've looked..." and this is my notes and
12 correct me if I'm wrong; when you were asked what
13 would happen if the EPA were disallowed you said,
14 "We've looked at contingency plans, and we have them
15 shelf-ready to pursue if the Commission doesn't allow
16 the EPA." Is that the gist of your evidence?

17 **Proceeding Time 4:46 p.m. T41A**

18 MS. HEMMINGSEN: A: Yes, we have a number of
19 contingency options, all of which we consider to be
20 less reliable than Duke Point.

21 MR. ANDREWS: Q: Do you have contingency plans in
22 addition to those that are articulated as the no-award
23 option?

24 MS. HEMMINGSEN: A: What we've represented in the no-
25 award option is the most reliable and what we consider
26 to be the most cost-effective of a range of

1 contingency options which might be available to us.

2 MR. ANDREWS: Q: So when you made that no-award
3 portfolio, did you, for example, consider the
4 Ladysmith project?

5 MS. HEMMINGSEN: A: No, we didn't consider the
6 Ladysmith project because we were including a no-award
7 situation, so no new generation on a long-term basis.
8 It would be short-term bridging opportunities.

9 MR. ANDREWS: Q: You did include one or more 23
10 megawatt units that were not bid into the CFT,
11 correct?

12 MS. HEMMINGSEN: A: They were temporary generators, so
13 they'd only be available to us on a temporary basis
14 until the cables were in service.

15 MR. ANDREWS: Q: So the contingency plans that you have
16 limited themselves to temporary measures, and excluded
17 possibilities because they would be permanent or
18 longer-term.

19 MS. HEMMINGSEN: A: No, no, because another of the
20 contingency options was Tier 2, which included two of
21 the projects that bid into the CFT process, both of
22 which were long-term, and then the backfill with a
23 Norske type of proposal, and any balance that was
24 remaining with temporary generators.

25 MR. ANDREWS: Q: My question relates to no award, and
26 not to Tier 2.

1 THE CHAIRMAN: Excuse me. Mr. Andrews, let's take a ten-
2 minute break.

3 MR. ANDREWS: Q: Thank you.

4 **(PROCEEDINGS ADJOURNED AT 4:48 P.M.)**

5 **(PROCEEDINGS RESUMED AT 5:00 P.M.)** **T42A**

6 THE CHAIRPERSON: Please be seated.

7 MR. ANDREWS: Q: When we left I was asking the panel
8 about their selection of facilities or options for the
9 new aware portfolio and I believe the answer was that
10 you had chosen the Norske management project plus the
11 23 megawatt temporary units and you were just
12 explaining that you didn't look at the Ladysmith
13 project and am I right that you were about to say that
14 it was because the Ladysmith project was not
15 temporary?

16 MS. HEMMINGSEN: A: No, because we looked at a mix of
17 long-term options and short-term bridging measures in
18 the Tier 2 alternative that was also evaluated in the
19 cost effectiveness analysis and perhaps it would be
20 better if we pursued these issues in Panel 4, because
21 that's what we've set up to speak to them.

22 MR. ANDREWS: Q: So did the people on your panel have
23 any involvement with the selection of the items that
24 were within or outside of the no award portfolio.

25 MR. SANDERSON: Well, Mr. Chairman, the whole panel to
26 deal with what was in or out or how the cost

1 effectiveness study was done certainly includes Ms.
2 Hemmingsen, so the answer is yes, but we have
3 suggested that these are most efficiently dealt with
4 on Panel 4.

5 MR. ANDREWS: Well, I think my question is at a fairly
6 high level here.

7 THE CHAIRPERSON: It may be, but can it not wait until
8 Panel 4?

9 MR. ANDREWS: I don't want to be told by Panel 4 that
10 they had been directed to populate the no award option
11 in a certain way. There's a management level decision
12 here that said we should limit ourselves in designing
13 the no award portfolio only to temporary measures for
14 some reason, but there's no logical reason why a
15 contingency plan should be deliberately crippled from
16 the start to be only temporary, when there are longer-
17 term solutions that could conceivably been part of the
18 no-award scenario. And that's a management level
19 issue.

20 MR. SANDERSON: Mr. Andrews can indulge his worst
21 nightmares with what managerial interference with
22 Panel 4. Ms. Hemmingsen is common to both and is the
23 senior person, in terms of this process, on both and
24 so will be able to deal with those nightmares.

25 **Proceeding Time 5:03 p.m. T43A**

26 MR. ANDREWS: Q: It is said in the call for tenders

1 report that the DPP project is a savings of from 50 to
2 100 million dollars over the VIGP benchmark. For the
3 record, it's page 13 and 14, but I think you're
4 probably familiar with it. The difference between 50
5 and 100 million has to do with the valuation of the
6 VIGP assets.

7 MS. HEMMINGSEN: A: The \$50 million relates to the cash
8 receipt that B.C. Hydro will get from DPP.

9 MR. ANDREWS: Q: Now, I'm going to ask a question.
10 The revision to Appendix J, page 1 of the CFT report
11 states that:

12 "The NPV of Tier 1 (DPP) is about \$100
13 million dollars NPV less costly than the
14 VIGP benchmark; however the CFT report
15 itself states that DPP is a 'saving of
16 approximately \$50 million relative to the
17 VIGP benchmark plus \$50 million of further
18 savings in the receipt of the \$50 million
19 payment from the winning bidder for the VIGP
20 assets is taken into account.' Reference
21 Exhibit B-1 page 13 to 14.

22 Question: Please confirm that the '\$50
23 million payment from the winning bidder for
24 the VIGP assets' is intended to be a fair
25 market value figure."

26 Your answer is: "Confirmed". Is that --

1 MS. HEMMINGSEN: A: Are you referencing an IR?

2 MR. ANDREWS: Q: I'm referencing the January 17th letter
3 from Lawson Lundell to me with the attachments, and
4 I'll refer you to page 5 of the witness aid, 2.7.7 at
5 the top of the page.

6 MS. HEMMINGSEN: A: Confirmed.

7 MR. ANDREWS: Q: I would like you to invite you to
8 change your view of that, because I submit to you that
9 in the context that this \$50 million figure is being
10 used that it is actually best treated as a sunk cost
11 and not a fair market value.

12 MS. HEMMINGSEN: A: Well, I'm not treating it as a fair
13 market value or a sunk cost. It's a cash receipt for
14 B.C. Hydro that is related to the Duke Point project.

15 **Proceeding Time 5:06 p.m. T44A**

16 MR. ANDREWS: Q: Let me ask then the next question:

17 "If the \$50 million payment for the VIGP
18 assets is a fair market value figure, then
19 please confirm that it is not relevant to an
20 NPV comparison of the VIGP benchmark and the
21 DPP."

22 MS. HEMMINGSEN: A: It is relevant because we're
23 receiving the \$50 million cheque from Duke Point
24 Power. And it's not relevant for the VIGP benchmark
25 because it wouldn't be received under the VIGP option.

26 MR. ANDREWS: Q: Now let me break that answer into two

1 parts if I may. The first answer is that it's not
2 relevant because B.C. Hydro is receiving a \$50 million
3 cheque. But I put to you that if indeed the \$50
4 million is a fair market value, then by definition
5 Hydro has transferred a \$50 million asset. You've
6 received a \$50 million cheque and gave away a \$50
7 million asset. It could just as easily, if it is
8 indeed fair market value, it could just as easily have
9 sold that \$50 million asset to somebody else down the
10 block. Correct?

11 MS. HEMMINGSEN: A: Well, I guess our estimation, if it
12 was sold to someone else down the block as on a
13 liquidated basis of salvage, it would be worth 14
14 million. And that's the amount we would net against a
15 non-VIGP portfolio.

16 MR. ANDREWS: Q: Does that not meet the definition of a
17 sunk cost? If you can't use it for anything but one
18 purpose, it's sunk. It's not a fair market value if I
19 say, "Sell it to the person down the street," and you
20 say, "Well, we can't." It has no fair market value.

21 MS. HEMMINGSEN: A: Well, I think I just outlined that
22 we can. We can sell it for \$50 million, which we did
23 to Duke Point Power, and we'll receive a cheque for
24 that, or we can sell it for \$14 million and receive a
25 cheque for that.

26 MR. ANDREWS: Q: Well, with all due respect, I think

1 what you're saying is that there's a market for it as
2 salvage for which the value is \$14 million. And so
3 the answer is, its fair market value was \$14 million.
4 You put a price on it of \$50 million, but that is not
5 a fair market value because there is no market for it,
6 as you tell me. You can't sell it for \$50 million to
7 anybody except DPP.

8 MS. HEMMINGSEN: A: Clearly there is because a number
9 of bidders proposed to buy it.

10 MR. ANDREWS: Q: Well, if it is worth \$50 million, then
11 you could have sold it to another bidder. And so you
12 gave up a \$50 million asset and you got a \$50 million
13 cheque back, so how did that benefit Hydro?

14 MS. HEMMINGSEN: A: I don't understand your logic.

15 MR. ANDREWS: Q: Okay, I'll leave it at that. I'll
16 refer you to 2.7.11:

17 "Please provide the NPV of the greenhouse
18 gas costs embedded in the energy charge in
19 the VIGP benchmark."

20 MR. SOULSBY: A: This can be calculated by multiplying
21 the dollar per megawatt hour GHC cost based on a \$10
22 per tonne figure by the dispatch energy from the QEM,
23 and taking the present value of that stream at 8
24 percent because the QEM does a monthly dispatch. This
25 approach assumes a uniform dispatch pattern intra-
26 year, which is not the case. The NPV is \$88 million

1 in 2006 dollars.

2 MR. ANDREWS: Q: So just to emphasize the point, the
3 NPV of the greenhouse gas costs embedded in the energy
4 charge for the VIGP benchmark is \$88 million in 2006
5 currency. Correct?

6 MR. SOULSBY: A: That's correct.

7 MR. ANDREWS: Q: And that DPP does not include an
8 itemized greenhouse gas cost, or charge to Hydro,
9 correct?

10 **Proceeding Time 5:10 p.m. T45A**

11 MR. SOULSBY: A: Any costs -- any recovery of expected
12 costs that DPP expects would be embedded in one of the
13 charges that they bid in. B.C. Hydro doesn't have any
14 knowledge of whether it was embedded in any fixed
15 charges or variable changes.

16 MR. ANDREWS: Q: So if at all, it's embedded in
17 somewhere we can't see it. I put it to you that in
18 trying to explain how it could be that the cost of
19 VIGP was 50 to 100 million dollars higher than the
20 cost of DPP, and we've just learned that 88 million
21 dollars net present value of greenhouse gas costs were
22 specifically identified in VIGP but were not
23 identified in DPP, it's highly likely that that's the
24 explanation for the difference.

25 MR. SOULSBY: A: Is there a question there?

26 MR. ANDREWS: Q: The question is, do you agree that by

1 the chain -- by changing from the structure of VIGP
2 benchmark, with embedded greenhouse gas costs, to the
3 DPP structure, 88 million dollars of net present value
4 has been eliminated? Let's start there.

5 MR. SOULSBY: A: I don't agree with that, and I have no
6 way of knowing what Duke Point Power bid into their
7 prices. So to the extent -- and we've covered the
8 ground that they are responsible, they're liable for
9 GHG costs. They, I'm sure, have a view of what the
10 GHG costs are and those have been presumably embedded
11 in their bid. But I can't -- I have no opinion as to
12 what.

13 MR. ANDREWS: Q: The -- I've asked Hydro Panel 1 if
14 they had a -- if Ms. --

15 MR. SOULSBY: A: Van Ruyven?

16 MR. ANDREWS: Q: Van Ruyven, exactly; had an
17 explanation for how the VIGP benchmark could have been
18 so much higher than DPP. And she didn't have a ready
19 explanation, except that there was a -- that DPP has
20 proposed, through a competitive process. And I would
21 suggest to you that one of the major possibilities is
22 that where the pencils got sharpened was to do with 88
23 million dollars in greenhouse gas liabilities. What
24 is your comment?

25 MR. SOULSBY: A: My comment is that B.C. Hydro included
26 the 88 million dollars, with a 10 dollar per tonne

1 figure, into the VIGP benchmark calculation based on
2 the direction from the Commission. And once again, I
3 have no view of what -- how Duke Point Power has
4 reflected their liabilities in their bid.

5 MR. ANDREWS: No further questions.

6 MR. FULTON: Mr. Hill.

7 **CROSS-EXAMINATION BY MR. HILL:**

8 MR. HILL: Q: Okay. Just a couple of real quick ones,
9 in manner of explanation. The costs associated with
10 transporting and storage of gas, liquid natural gas,
11 pressure looping, et cetera; understanding there's
12 some mechanism to recover the costs of the
13 facilitation. How is the energy cost for converting
14 and unconverted to liquid natural gas shown in the
15 whole scale of economies here? In other words, it
16 costs energy, you know, if the guy in Chetwynd, if he
17 phones up and says "I'm sending you ten cubic feet,"
18 and you say, "Well, you know, by the time we get it
19 converted and unconverted, because we've got to store
20 it for peaks, we only got eight left." Is that, like,
21 do you pay for eight -- you know, there's a difference
22 in the energy there. I'm just wondering where that
23 comes from. You know.

24 MR. SIMPSON: A: Are you -- sorry, I'm just trying to
25 get some clarification. Are you referring to if we
26 were to try to move gas on the Terasen system, and

3 Proceeding Time 5:15 p.m. T46A

14 MR. SIMPSON: A: Right. Okay. Well, now, my
15 understanding is that the estimates that Terasen has
16 provided to us for the tolls that would apply to the
17 Duke Point project also includes estimates of the so-
18 called system gas that would be consumed on the
19 system. And that includes the fuel that's necessary
20 to run their compressors as well as the fuel that
21 would be consumed in liquefying and vaporizing LNG at
22 their proposed storage facility. So the answer is,
23 it's -- that usage of gas is rolled into the fuel
24 ratio that they specify for the system, which is
25 approximately on an annual basis about 5 percent. So
26 in total, for a combined use for compressors as well

1 as the LNG facility, about 5 percent of the gas that
2 we would provide at the Huntington receipt point would
3 not be delivered to us at Duke Point, because it would
4 be consumed somewhere on the Terasen system. So I
5 don't -- if that helps you.

6 MR. HILL: Q: Well, that -- yeah. So that gas is then
7 -- so you pay for gas you didn't receive, is that
8 right?

9 MR. SIMPSON: A: Well, you pay -- you have to pay the
10 cost of the gas that is required either to operate the
11 compressors on the Terasen system or, if it's going to
12 go into LNG storage, there's certain gas gets consumed
13 in liquefying the gas, and a certain amount gets
14 consumed when it's subsequently vaporized. And that
15 gets -- all gets rolled into one single fuel ratio for
16 the whole system.

17 MR. HILL: Q: So that's shown in the heat rate?

18 MR. SIMPSON: A: No, it's in the -- I think within the
19 QEM there is a ratio specified which is like a loss
20 factor. So if we delivered -- if we want to get 45
21 terajoules delivered to Duke Point, then we must
22 provide at Huntington 45 over 1 point -- 45 times
23 1.05, in order to account for the loss factor.

24 MR. HILL: Q: Okay. I'll buy it. I'm sure somebody
25 else will figure out what's wrong with it, and it
26 won't be me.

1 Subject to the assets, I want to thank you
2 for -- I think I have a better understanding now of
3 how the political economics works in regard to the
4 energy sector. It sounds like -- I don't know if I'm
5 wrong here, but were Duke Point to get to that asset
6 you're talking about, they'd have about a hundred
7 million bucks in it, would they? If they were to
8 start again to do what you're selling them for 50, 60,
9 70 million.

10 MS. HEMMINGSEN: A: Pardon me?

11 MR. HILL: Q: If they were to do again, to get to that
12 asset of 70 million, how much would they have in it?
13 Like, how much have you guys got in that asset?

14 MS. HEMMINGSEN: A: Well, we spent 70 million dollars
15 developing VIGP. Part of that cost, approximately 20
16 million dollars, was for progress payments towards a
17 gas turbine, which we ended, and exited, so there was
18 no asset underlying that 28 million dollars. So that
19 portion does truly represent sunk costs.

20 MR. HILL: Q: So B.C. Hydro has 70 million bucks spent
21 now on this project, is that right?

22 MS. HEMMINGSEN: A: Approximately.

23 MR. SANDERSON: I think the number in the deferral
24 account is 67.3, the last time that I looked.

25 MS. HEMMINGSEN: A: Mm-hmm.

26 MR. HILL: Q: Okay. So -- so how it works now is that

1 you sell to Duke Point, ten bucks for ten bucks, and
2 then they sell it back to you for ten bucks, and you
3 guys -- it's some -- or you -- they sell it back to
4 you for some undisclosed amount, somewhere in their
5 bid. And then you imply a credit somewhere. Okay.

6 MS. HEMMINGSEN: A: Is that a question?

7 MR. HILL: Q: No, I'm just trying to get it in my head
8 how that's working, and it just -- it's not going to
9 be easy. It sounds like there's -- I'm missing
10 something somewhere. But hopefully somebody will
11 still have that figured out.

12 I've understood there was about 100 million
13 dollars spent getting to this position.

14 **Proceeding Time 5:20 p.m. T47A**

15 MS. HEMMINGSEN: A: Yeah. As Mr. Sanderson outlined, I
16 think the correct figure is --

17 MR. HILL: Q: It's only 67.

18 MS. HEMMINGSEN: A: -- 67 million.

19 MR. HILL: Q: Okay. You were talking to Mr. Quail.
20 You suggested that the long-term nature of this may
21 have been driven by the bidders and their needs for
22 financing?

23 MS. HEMMINGSEN: A: That was one of the considerations.
24 The other consideration was the direction that we got
25 out of the VIGP decision to pursue on-Island
26 generation.

1 MR. HILL: Q: Okay, well, what -- just regarding those
2 bidders, what bidders would be looking for that long
3 term? You know, what type of bidder would be looking
4 for that long-term situation?

5 MS. HEMMINGSEN: A: Typically any bidder that was
6 looking to construct a new facility would be looking
7 for financing, and they would be looking to allocate
8 that financing and the repayment of that financing
9 over the longest term possible.

10 MR. HILL: Q: So you couldn't identify that --

11 MS. HEMMINGSEN: A: So they would like a secure cash
12 flow for as long as possible.

13 MR. HILL: Q: So you couldn't identify that as to what
14 type of bidder would need that longer-term financing.
15 Like would smaller projects meet it or bigger
16 projects?

17 MS. HEMMINGSEN: A: Well, our experience with bidders
18 is most of them need that.

19 MR. HILL: Q: Okay. Thank you.

20 MR. FULTON: Mr. Steeves.

21 MR. STEEVES: Good afternoon, Mr. Chairman. First of
22 all, my apologies to the Panel Commission. I got
23 caught up in a traffic snarl today and I didn't meet
24 the roll call.

25 **CROSS-EXAMINATION BY MR. STEEVES:**

26 MR. STEEVES: Q: So with that, I'd like to take your

1 commission to make a presentation, and in my
2 presentation I would like to first start off by saying
3 to the delegates here that I'm sort of an outsider
4 here, and I'm caught up in a catch-up mode because I
5 haven't had time and also inclination to go through
6 all the material. And hence I spend most of my time
7 just going through the download material that's been
8 coming through the e-mail, and hence I haven't covered
9 everything. So I have to rely on you a little bit to
10 get the appropriate information.

11 And with that in mind, I would like to
12 start off by following up on a question I proposed to
13 Ms. Bev --

14 MS. HEMMINGSEN: A: Van Ruyven.

15 MR. STEEVES: Q: Yes, yesterday. This is in regards to
16 a statement that she said that -- to just quote very
17 quickly from my own statement here, it's in regards to
18 the technical review, reviews done for this project to
19 get through the pre-qualification stage. And she
20 first also mentioned that there was an independent
21 reviewer, R.W. Beck. Is that an individual or --

22 MS. HEMMINGSEN: A: It's a firm.

23 MR. STEEVES: Q: A consulting engineering firm. And
24 they specialize in this particular technical area?

25 MS. HEMMINGSEN: A: They specialize in making
26 assessments of projects.

1 MR. STEEVES: Q: What type of projects?

2 MS. HEMMINGSEN: A: A full range of projects. Mr.
3 Eckert can speak to their qualifications.

4 MR. ECKERT: A: They're a fairly large consulting
5 engineer in the energy sector, and they would work on
6 all series of projects -- coal plants, gas plants,
7 renewable plants, hydro plants.

8 MR. STEEVES: Q: So they're consulting engineers. They
9 have the technical expertise with regards to turbine
10 systems, for example?

11 MR. ECKERT: A: They would have somebody in their
12 practice that would have that expertise, yes.

13 MR. STEEVES: Q: Okay. Now let's see. I guess I'll
14 throw out a general question, which is what I gave
15 yesterday was in what areas were these technical
16 analyses conducted? Again that's going back to this
17 pre-qualification stage. What was done in that area?
18 Okay, please elaborate.

19 MR. ECKERT: A: Well, we had a fairly specific list of
20 mandatory criteria at the pre-qualification stage. If
21 you bear with me.

22 MS. HEMMINGSEN: A: We're just looking for an
23 information request that outlined the process that was
24 followed.

25 **Proceeding Time 5:25 p.m. T48A**

26 MR. ECKERT: A: I can answer it with what I've got

1 here. I've got a -- the mandatory criteria, we
2 applied two sets of mandatory criteria. There was a
3 financial mandatory criteria which I'm not as familiar
4 with. On the technical side we had criteria that
5 applied to the bidder. So one of the criterias was
6 that the bidder had to demonstrate that they had
7 sufficient experience to actually construct the
8 facility that they were proposing. So we would look
9 to see whether or not there were members of the
10 bidders team that had experience or whether the bidder
11 was indeed in fact a firm that had constructed a
12 similar facility.

13 So we had criteria around that, around
14 having an experienced bidder.

15 With respect to the mandatory criteria --

16 MR. STEEVES: Q: Excuse me. Just to interrupt here.

17 Now you are saying this bidder in the technical aspect
18 or technical end would be a person who, in their
19 submission of their bid is putting in an application
20 where they are like a consolidating agent who brings
21 in the various equipment and expertise from outside
22 and basically puts it together. He consolidates this
23 information into the project, is that correct?

24 MR. ECKERT: A: Well, what we did is we tried to be as
25 flexible as we could. So recognizing that you could
26 have -- you may have a company that had never built

1 that project but they had a member on their team, a
2 key member that they had employed that had previous
3 experience with a previous employer, we would accept
4 that. If a developer didn't have the expertise
5 internal, they could contract with a party and they
6 could demonstrate that they had that expertise through
7 their relationship with an engineering firm or a
8 construction firm or somebody else. So we tried to
9 give us much latitude as we could around bidder
10 experience.

11 MR. STEEVES: Q: So in a sense you are relying on the,
12 so to speak, the subcontractors in the projects that
13 are involved.

14 MR. ECKERT: A: That was one way in which they could
15 satisfy that criteria. It's fairly well outlined, I
16 think in there's an IR, BCUC IR 1.19.1 which lays out
17 the specific criteria probably more exhaustively than
18 I would off the top of my head.

19 MR. STEEVES: Q: Okay, so just to quickly summarize on
20 this point then, both B.C. Hydro and the direct
21 applicant would not have technical expertise or
22 knowledge in detailed technical aspects per se, they
23 have to rely on the subordinate subcontractor type
24 people involved. That's a possibility. Let's put it
25 in that terms.

26 MS. HEMMINGSEN: A: There's potentially two issues that

8 MR. STEEVES: Q: Okay. All right. Now, to follow up
9 on comments that were made earlier this afternoon by
10 Mr. William Andrews, he brought up the subject of dual
11 fuel systems and from my quick sort of investigation
12 on the weekend, I came across a B.C. Hydro document.
13 I was in a bit of a hurry and I didn't quite get the
14 source where it came from, all I have here is on page
15 73 of B.C. Hydro document which gave a description of
16 either it was VIGP project proposal or it's the Duke
17 Point proposal, and in it they give the principle
18 equipment which is a one gas turbine/generator and
19 they list the manufacturer as General Electric model
20 PG7241 FA. Is this the same equipment that is being
21 used or proposed by Duke Point or has another model
22 come in?

24 Proceeding Time 5:30 p.m. T01B

26 MR. ECKERT: A: That's the model turbine that they have

1 included in their description of the project, which is
2 an attachment to the EPA.

3 MR. STEEVES: Q: That's Duke Point you're referring to.

4 MR. ECKERT: A: That's the Duke Point -- that's the
5 contract with Duke Point Power.

6 MR. STEEVES: Q: Well, what's disturbing here is, under
7 the description of function, they list this turbine as
8 a natural gas-fired only turbine. Not a dual fuel
9 turbine. Only a natural gas fuelled turbine. Can you
10 comment on that?

11 MR. ECKERT: A: Well, that's -- this project was
12 actually tendered as a natural gas fired tolled
13 facility, and I'm not sure as to the document you're
14 referring to that specifies it as only -- as gas only,
15 but the way they've tendered this, it's -- it was
16 tendered as gas-fired only. It's not the tender
17 that's going forward.

18 MR. STEEVES: Q: So the equipment that we have, this
19 natural gas turbine, it is a natural gas turbine
20 powered generator. Gas turbine. It is not designed
21 for a dual fuel system, correct? This is the
22 equipment that B.C. Hydro has sold or has proposed to
23 sell --

24 MS. HEMMINGSEN: A: No --

25 MR. ECKERT: A: No, no, we've not sold -- we've
26 actually -- we're not selling the steam -- we're not

1 selling a gas turbine to Duke Point Power. What we're
2 selling to them is a steam turbine, and actually
3 they're procuring all the other equipment that they
4 would need. That's the only hard asset that we've
5 provided to them is the steam turbine. So this is the
6 gas turbine that they've specified in their tender.

7 MR. STEEVES: Q: Okay. So their tender does specify
8 this particular gas turbine, this model.

9 MR. ECKERT: A: That's correct.

10 MR. STEEVES: Q: Which presumably is a gas-fired only
11 turbine.

12 MS. HEMMINGSEN: A: That's right. That's what the
13 EPA --

14 MR. STEEVES: Q: And you have stated earlier that you
15 are in negotiation with Terasen to secure fuel for a
16 dual fuel arrangement.

17 MS. HEMMINGSEN: A: No, I don't think that's quite what
18 I said. I said we're in discussions with Terasen to
19 secure the gas transportation that we require for a
20 natural gas facility --

21 MR. STEEVES: Q: And if you don't get that, you need a
22 dual fired turbine.

23 MS. HEMMINGSEN: A: No, if we don't get that, one of
24 our options is to pursue dual fuel at Duke Point's
25 facility. It's currently not configured for that dual
26 fuel option.

1 MR. SOULSBY: A: I don't think that document you're
2 referring to there, which I understood to be a B.C.
3 Hydro document -- when it says it's a natural gas
4 fired only, I don't think it's conclusive in that the
5 design of that machine is only for natural gas. It so
6 happens, as Mr. Eckert has pointed out, that Duke
7 Point Power has tender -- has submitted a tender which
8 is currently -- which is only for natural gas. That
9 -- neither is that conclusive that the design of the
10 machine is only for natural gas.

11 MR. STEEVES: Q: Okay. I take it then that with the
12 contractual -- the EPA that has been configured, has
13 been written so far, is it going to remain only a
14 natural gas or will it be natural gas and dual
15 fuelled, or dual fuel?

16 MR. ECKERT: A: The contract that's been executed with
17 Duke Point Power is for -- it's for a natural gas
18 tolling dispatchable project. So any agreement to
19 change that would be subject to the mutual agreement
20 of B.C. Hydro and Duke Point Power, and subject to a
21 negotiation between the parties.

22 MR. STEEVES: Q: And do you have any plans to change
23 it?

24 MS. HEMMINGSEN: A: Not until we confirm what the
25 status is with Terasen.

26 MR. STEEVES: Q: Okay. All right. Now, my second

1 question goes back to earlier this morning. I think
2 it was Mr. Bois, he was saying that -- he brought up
3 the issue of the two transmission lines going over to
4 Vancouver Island. If one went down, tripped, the
5 other would have to bear the load, and a figure of
6 say, one hour, was possible. And then they would have
7 to rely on the proposed Duke Point turbine system.
8 And then later in the afternoon, Mr. Jim Quail brought
9 up the issue of -- let's see. He was saying that the
10 issue of the reliability and operating capacity was
11 something like 97 percent. And you had a three
12 percent maintenance downtime, is that correct?

13 **Proceeding Time 5:35 p.m. T2B**

14 MR. ECKERT: A: Yeah, that's actually not correct.
15 There's a three month window within which the seller
16 is entitled to schedule their scheduled maintenance.
17 They've tendered a certain number of hours for
18 scheduled maintenance, and they are required to be
19 available 97 percent of any time when they are not
20 experiencing a properly scheduled maintenance, and
21 failure to achieve 97 percent availability on a
22 monthly basis results in adjustments to their capacity
23 charge.

24 So there are penalties if they fail to meet
25 the 97 percent availability on a monthly basis.

26 MR. STEEVES: Q: All right now, from my understanding,

1 this is a peak power plant. We are only supposed to
2 be operating it for a certain period of time during a
3 period of -- during the year. Is that correct?

4 MR. ECKERT: A: I think there's evidence that we've
5 submitted that suggests that the plant -- we expect
6 the plant to operate over 80 percent of the time.

7 MR. STEEVES: Q: Eighty percent of being the turbine
8 could be turned on in a sense and would be running in
9 idle without any load and is just turning --

10 MR. ECKERT: A: No, it would operating at full load for
11 80 percent of the hours in the year.

12 MR. STEEVES: Q: Okay. Well, going back to what Mr.
13 Bois said earlier in the morning about the one line
14 tripping and then having to rely on the single line
15 for one hour, I have it from capable sources that a
16 turbine system, that is an industrial gas turbine
17 takes a considerable length of time, say hours, as
18 opposed to maybe like a turbo fan jet engine on an
19 aircraft which only takes minutes.

20 If the line trips, and it goes beyond say,
21 one hour, and if the turbine system is in maintenance,
22 what do you do after one hour?

23 MR. SOULSBY: A: I think the misconception we need to
24 clear up here is that it's only this turbine which is
25 providing the N minus 1 capability for the Island.
26 It's the system as a whole and so in any given hour we

1 must in fact -- in fact it's the BCTC that's operating
2 the transmission system, we must maintain the N minus
3 1 criteria such that if the single largest element of
4 that system were to fail, the system would still
5 continue to run. So in the event that you are talking
6 about, the transmission line fails and the system for
7 the turbine is down, what do you do after one hour?

8 MS. HEMMINGSEN: A: You go to operational measures.

9 MR. ECKERT: A: Yes, so my point is that they still
10 would have -- in order for that turbine to be down,
11 they still would have needed to be meeting the N minus
12 1 criteria in that hour. So again, the single largest
13 contingency needs to be met even when the unit is
14 down.

15 MR. STEEVES: Q: Okay. All right. That's all I have.
16 Thank you very much.

17 THE CHAIRPERSON: I think that leaves you, Mr. Fulton.

18 MR. FULTON: It does, Mr. Chairman.

19 THE CHAIRPERSON: Let's sit until 6 o'clock.

20 MR. SANDERSON: Mr. Chairman, it has been a long day.
21 Subject to Mr. Fulton's estimate, and bearing in mind
22 the scheduling issues for tomorrow, I'm wondering if I
23 can ask you to reconsider that. If Mr. Fulton is on
24 track to be done in the morning, I'm wondering whether
25 the next twenty minutes, given the length of today is
26 the best use of the time.

1 THE CHAIRPERSON: I'm happy to do that. Mr. Fulton is
2 going to put us behind -- Mr. Fulton isn't going to
3 put us behind schedule, but by the time he finishes
4 we're going to be behind schedule and so I was really
5 just trying to make up a few minutes, but let's
6 adjourn until tomorrow morning at 8:30.

7 MR. KEOUGH: Excuse me, Mr. Chairman, before you run, I
8 had an editorial thing for you.

9 THE CHAIRPERSON: We adjourned the proceedings then, Mr.
10 Keough. You were a little bit slow, or I was too fast
11 for you.

12 MR. KEOUGH: You were too fast, Mr. chair. Well, let's
13 split the difference, Mr. Chairman. It's not a big
14 deal.

15 THE CHAIRPERSON: This panel is excused at the very
16 least, I would assume.

17 MR. KEOUGH: I'll only be ten seconds, Mr. Chairman.

18 THE CHAIRPERSON: All right.

19 MR. KEOUGH: I'm advised that when we filed electronically
20 the responses to the Commission's Information Request,
21 when Duke Point Power filed it

22 **Proceeding Time 5:40 p.m. T03B**

23 MR. KEOUGH: I'm advised that when we filed
24 electronically the responses to the Commission's
25 Information Requests from Duke Point Power filed it.
26 For some of the individuals, the e-mails keep bouncing

1 back as non-deliverable because of the attachments.
2 Now, I just wanted to put on the record that if anyone
3 is experiencing that difficulty, we will provide them
4 with a hard copy. It just does not seem to want to go
5 on the e-mail.

6 Thank you for the indulgence, Mr. Chairman.
7 THE CHAIRMAN: Thank you. Now we have one more before we
8 adjourn.

9 MR. BOIS: Mr. Chairman, I'm sorry. I don't have a
10 question for any of the panel, and I'm sure that they
11 would love to go home, so if you want to take a brief
12 second to excuse them, I'm at your leisure there.

13 THE CHAIRMAN: There's --

14 MR. BOIS: But I just wanted to set on the record --

15 THE CHAIRMAN: You're excused. Please proceed, Mr. Bois.

16 MR. BOIS: I just wanted to set on the record to make a
17 correction. We could do this in the preliminary
18 matters, but I wanted to do it while it was fresh in
19 my mind. I earlier made the comment that Norske did
20 not get the QEM model. I was mistaken. They did get
21 the QEM model. So just for the record.

22 THE CHAIRMAN: Okay.

23 MR. BOIS: Thank you, Mr. Chairman.

24 THE CHAIRMAN: Is there anything else before I adjourn?
25 We are adjourned.

26 **(PROCEEDINGS ADJOURNED AT 5:41 P.M.)**