

Association of Major Power Customers of BC (AMPC)

BC Hydro Application for a Certificate of Public Convenience and Necessity for the Dawson Creek and Area Transmission Line (DCAT), Project No: 3698640

Response to Information Request No.1 of BC Sustainable Energy Association and Sierra Club of British Columbia (BCSEA)

June 28, 2012

1.0 Topic: AMPC

Reference: BC Hydro F2012-F2014 RRA, Exhibit C18-14, AMPC Response to BCSEA IR 1.1

“AMPC members include major transmission level customers of BC Hydro in the Pulp and Paper, Forestry, Mining, Electrochemical and Petrochemical sectors. This includes major BC corporations, some struggling to stay in business and some with major growth and expansion plans.

All AMPC members have at least one facility served at transmission voltage level on BC Hydro’s TSR. Several AMPC members have multiple services some of which would be considered large commercial or small industrial. Some AMPC members have significant cogeneration and renewable generation facilities. All AMPC member representatives also personally have residential services.

AMPC typically does not make its membership list public. To be helpful, however, AMPC advises that its membership collectively purchased 10,642 GWh from BC Hydro in 2011. This represents approximately 21% of B.C.’s total load and 81% of large industrial load. [FN: Calculated based on Exhibit B-1-3, New Table 3-A.] Approximately 60% of this consumption was from forestry-related industries, 26% from mining, and 14% from electrochemical and petrochemical operations.

AMPC’s predecessor was the Joint Industry Electricity Steering Committee (“JIESC”) and before that the Council of Forest Industries and the Mining Association of B.C. AMPC and these predecessors have been active participants in Commission proceedings since BC Hydro became rate-regulated nearly four decades ago.”

1.1 Please update and/or confirm the description of AMPC.

Response:

The description is confirmed.

2.0 Topic: Postage stamp rate principle

Reference: Exhibit C-3-10, p.4-

“BC Hydro’s Electric Tariff is based on the “postage stamp rate” principle that is very widely accepted by vertically integrated utilities. Under the postage stamp principle, rates do not differ by location or vintage of customer and are designed to recover the fully allocated cost of service...” [p.4]

- 2.1 To confirm, are you saying that under the postage stamp rate principle rates do not differ between new customers and existing customers, other things being equal, and subject to the customer contribution concept?

Response:

Yes, under the postage stamp principle, there is no discrimination by vintage. A residential, commercial or industrial customer whose service was energized in 1952 pays the same rate as a similar customer whose service was energized in 2012.

There is also no discrimination by location, subject to a contribution policy that can be considered an adjustment (or an economic boundary to absolute postage stamp rates) where the location of the customer relative to the strength of the system would cause unusually large reinforcement costs relative to the revenues produced.

“Customers that choose to develop large electrical loads in locations that will require significant incremental transmission infrastructure construction are then required to contribute to the cost of the infrastructure with a contribution payment before they can access the stable postage stamp rate.” [p.5]

- 2.2 Does the postage stamp rate principle always include the customer contribution concept?

Response:

Yes. As described in AMPC’s response to BCSEA IR No. 1.2.1 above, the contribution policy establishes an economic boundary necessary to protect postage stamp rates from unreasonable levels of escalation. Absent the safeguard of a well-designed contribution policy, new customers demanding service in locations that are disproportionately expensive to serve could cause rate shock for all existing customers.

It would obviously not be reasonable to over-extend the system to the Yukon or Alaska border in order to serve a few small customers producing a small level of revenues and “roll-in” the costs so that all customer’s rates are increased.

A good contribution policy protects existing customers from the risks of such escalation and provides new customers with a price signal to encourage more efficient selection of energy choices.

The role of a contribution policy in protecting postage stamp rates from controversy is less noticeable, and perhaps less important, during periods of slow system growth or dormancy, such as the period that B.C. is just emerging from now.

3.0 Topic: Customer contribution
Reference: Exhibit C-3-10, p.4

“Customer contributions are a necessary component of postage stamp rates for several reasons. To be maintained, postage stamp rates require protection from undue price escalation and associated controversies that would occur if new customers or groups of customers causing significant expansion costs were not charged a "contribution in aid of construction" or “CIAC”, usually termed a customer contribution.”

- 3.1 Please confirm that “undue price escalation” refers to upward pressure on rates for existing (and new) customers.

Response:

Undue price escalation refers to excessive or avoidable rate increases for existing and new customers who are served on postage stamp rates.

- 3.2 What is meant by “associated controversies”?

Response:

Controversies refers to consequences of undue price escalation that are controversial. The current DCAT proposal is arguably controversial. Recent media articles speculating on the electric system and the rate impact of proposed LNG plants in the Kitimat region (where some parties urge the abandonment of postage stamp rates for industrial customers) also provide examples of the controversy that can be avoided by effective contribution policy.

4.0 Topic: Timing of any changes to customer contribution policy
Reference: Exhibit C3-10, p.15, 16

“AMPC recommends that the Commission deny approval of the DCAT project pending a revision of TS 6 to provide an effective and consistent contribution policy, resulting in outcomes that are in the public interest.” [p.15]

“Q. What is your response to new customers’ concern that changing the tariff now would be too time-consuming given their projects’ needs, and the time and money they have already invested?”

A. Proceeding further with transmission construction under TS 6 would compound BC Hydro’s initial error. BC Hydro ought to have recognized that TS 6 would create this outcome several years ago once it became aware of the initial scope of demand driving the DCAT project. Natural gas powered compression or self generation may remain options, and from a cost perspective it is important to avoid the potential overbuild of the DCAT and GDAT projects.” [p.16]

- 4.1 If the Commission was persuaded that the customer contribution policy implicitly or explicitly applied to the new customers whose load would be served by the DCAT project was not adequate, would the Commission’s only option be to deny this CPCN application? Are there alternatives?

Response:

The only immediate option is to deny this CPCN application.

An additional option, but not an alternative, is to direct BC Hydro to consult with customers and develop a new contribution policy to replace TS #6, and to submit a revised DCAT application taking into account the effects of a revised contribution policy.

- 4.2 If this CPCN application was denied pending a revision of TS 6, as recommended by AMPC, what would be the procedure for (a) revising TS 6 and (b) revisiting the DCAT CPCN application?

Response:

Please see AMPC's response above to BCSEA IR No. 1.4.1.

- 4.3 Is the potential overbuild of the DCAT and GDAT projects the only reason for denying the requested CPCN, in AMPC's view?

Response:

Developing a more fair, efficient and effective contribution policy is essential before developing the facilities that may or may not be required to serve the burgeoning gas compression, liquefaction and mining loads expected to locate within BC.

**5.0 Topic: Decision-maker re customer contribution policy
Reference: Exhibit**

"AMPC is concerned about the very different treatment of customer contributions, applicable to similar sizes of large industrial developments imposing similar incremental costs on the BC Hydro system, based solely on the presence or absence of existing but inadequate infrastructure in the vicinity of the new loads. The large majority of the DCAT project's capacity expansion (costing in excess of \$219 million) is for the benefit of new industrial load, yet no contribution is required from these customers and the system costs are therefore "rolled-in" to the rates. In contrast, expansion projects of comparable size and cost in other parts of the province – notably the Northwest Transmission Line (NTL) project (\$228 million net of grants) – rely on customer contributions with no "roll-in".

Different tariff treatment for customers causing similar increases in system costs creates numerous problems and is not in the public interest." [p.3]

- 5.1 Is AMPC's main concern that new large loads requiring upgraded transmission infrastructure are not required to make a customer contribution; or that there is a discrepancy in that a customer contribution is required for new large loads requiring new transmission infrastructure but not for new large loads requiring upgraded transmission infrastructure?

Response:

The suggested concerns are two sides of the same coin. The major discrepancy between the contributions required of two comparable groups of new customers was the issue that first caught the attention of AMPC. The solution is the development of a better contribution policy that would be fair and effective in signalling the costs of expanding the transmission system to serve large developments.

AMPC's main concern is that a stable and transparent tariff, including a sound contribution policy, be developed to assist in the orderly and economic development of the system that will protect all customers from undue rate escalation. This is a critical step before further major developments at DCAT, in the NW and North Coast are contemplated.

- 5.2 Please discuss AMPC's view of the respective roles of the government, the Commission and BC Hydro in terms of determining the appropriate customer contribution policy.

Response:

It is the government's role to develop broad energy policy such as the form and structure of independent regulation of BC Hydro, the decision to develop major Hydro resources under the Columbia River Treaty (and its renegotiation), and the decision to allow oil and gas developments. It is also the government's role to set environmental and other regulations such as royalties, water rentals and carbon taxes whereby externalities can be incorporated into utility decision-making.

Whereas the government's role in theory could be extended into many detailed aspects of managing the utilities, the public good is invariably better served if the management of public utilities and their regulation is left to a qualified and specialized cadre of management within the utilities and the Commission who factor in advice from consumer groups who fund the utility.

Specialized roles that are better determined outside of government regulation or special direction include utility planning criteria, all decisions on the facilities and equipment required to serve, choice of least cost supply mix, determination of cost effective conservation measures, all tariff design including contribution policy and negotiations to interconnect large customers.

In short, the decisions that belong to the Utility and the Commission (informed by intervenors) are no different for a government owned utility than for an private or investor owned utility.

**6.0 Topic: Current Solutions Inc (CSI) evidence
Reference: Exhibit C15-5**

- 6.1 Please provide any comments AMPC may have regarding CSI's evidence.

Response:

AMPC will reserve commenting on CSI's evidence until the filing of argument in this matter.