

**CLEAN ENERGY ASSOCIATION OF B.C.  
("CEABC" OR "CEBC")**

**WRITTEN SUBMISSION TO  
THE B.C. UTILITIES COMMISSION**

**B.C. HYDRO AND POWER AUTHORITY'S  
WANETA 2017 TRANSACTION  
("WANETA 2017" or the "TRANSACTION")**

**January 22, 2018**

## 1. INTRODUCTION AND GENERAL COMMENTS

In Exhibit A-9, the British Columbia Utilities Commission (“BCUC”) asked all interveners to comment on BC Hydro’s explanation of the redactions it made to the Waneta 2017 Business Case<sup>1</sup>, the Excel working models<sup>2</sup> and the associated modeling overviews<sup>3</sup>.

In response, CEABC makes the following general overall observations:

1. Many of BC Hydro’s reasons for the redactions may be quite legitimate in cases where ongoing negotiations could be compromised.
2. Notwithstanding the need to protect these ongoing negotiations, if such a large amount of critical information needs to be redacted, because it is still under negotiation, then this deal is very far from fully formed.
3. In fact, the Waneta 2017 is still so far from being fully formed that the BCUC is being asked to approve a preliminary transaction.

To illustrate this point, CEABC refers to BC Hydro’s explanation for the redaction of most of the information in sub-appendix B of the Business Case<sup>4</sup>. In its reasons for the redactions, BC Hydro states that it is reluctant to reveal its’ assumed: *“allocation of cost responsibility for major capital upgrades.”*

The responsibility for future capital upgrades represents a potentially enormous future cost liability that is, at present, completely unresolved – an indication that this deal is not, in any way, completely formed or costed.

CEABC must ask: *“Why is the BCUC being asked to approve a deal that still has such enormous missing pieces?”*

## 2. COMMENTS ON REDACTIONS TO THE RATE IMPACT MODELS

BC Hydro has modeled 9 different scenarios, using the same Rate Impact Model. Redacted copies of these models were included as attachments to B-7, as Excel models 1 through 9. The explanations for the redactions are in B-7<sup>5</sup>.

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<sup>1</sup> Exhibit B-1, Appendix N

<sup>2</sup> Included in Exhibit B-7, along with the explanation of the redactions

<sup>3</sup> Exhibit B-6, Attachments 1 and 2

<sup>4</sup> Exhibit B-7, Attachment 1, page 11 of 19

<sup>5</sup> Attachment 2, Tables 2 through 10.

Because the redactions are similar in all 9 models, CEABC will address its comments to Model 1 (Table 2), which represents the “LRMC Clean Scenario”, and the same comments will apply to the other 8 scenario models.

The redactions occur on the Input Data sheet, the Capital sheet, and the Finance Charges sheet, but they all relate to the same thing - the reluctance of BC Hydro to disclose its assumptions regarding the amount of future capital spending that will be required, since the cost sharing for this future capital has not yet been agreed upon between BC Hydro and Teck.

CEABC notes that it does not appear to be the total future capital requirement that seems to be a matter for confidentiality, but only the proportionate sharing of that capital between Teck and BC Hydro. The estimates of the total required capital can be seen in the charts at the end of sub-appendix B<sup>6</sup> but BC Hydro’s assumed share has been redacted from the spreadsheet models.

From the charts in sub-appendix B, this future capital appears to be a major potential cost, possibly over \$1 billion over the next 30 years. It certainly needs to be scrutinized and taken into account in any valuation of the Transaction. Without having this amount “locked down” the deal cannot be fully and finally evaluated.

A possible suggestion: Since the totals and the timing for the 100% share of the future capital requirements are already known, these amounts could be included in all of the models, without any allowance for BC Hydro assuming a smaller share. That will at least allow the BCUC to evaluate the “worst case scenario”, which is that BC Hydro will have to pay the full cost of those future capital upgrades. If the Transaction is still beneficial to BC Hydro on that basis, then it will be even more beneficial using any more equitable negotiated sharing arrangement.

The models could be adjusted so that an initial table would show the full 100% of the estimated capital requirements, followed by a “BC Hydro share percentage” variable, for each line item. That “share percentage” would then populate a second table with the assumed BC Hydro share of each capital item. For the public versions of the models, the “BC Hydro share percentage” variables would be set at 100%, but the setting of those sharing percentages would become a point for sensitivity analyses and for confidential discussions with the BCUC.

### **3. COMMENTS ON REDACTIONS TO THE VALUATION MODEL**

Redactions to the Valuation Model are explained in Table 1<sup>7</sup>.

The same Capital Expenditure redaction infects all the sheets in this model, rendering the entire model more or less useless for understanding the valuation of the Transaction. It starts in the

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<sup>6</sup> Exhibit B-1, Appendix N.

<sup>7</sup> Exhibit B-7, Attachment 2.

Capital Expenditure sheet and extends to the Core Valuation sheet and the Default Valuation sheet.

Once again, the issue seems to revolve around BC Hydro's reluctance to reveal its assumed sharing ratio for future capital expenditures, because these ratios have not been agreed upon in the negotiations with Teck.

And once again, CEABC would reiterate that without the two parties having agreed on this future capital expenditure sharing, then it is premature for the BCUC to be called upon to approve such an "*open-ended*" transaction.

The best that could be hoped would be that:

- If the models are recalculated assuming BC Hydro will be responsible for 100% of the future capital.
- If this provides a beneficial valuation for BC Hydro and its ratepayers, then the Transaction might be approved on a conditional basis.

The redaction relating to "*information regarding the potential change to FortisBC load under the FortisBC 3808 Agreement.*" affects the Inputs sheet, the Load Resource Balance sheet, and the NoGo Scenario sheet.

BC Hydro's explanation for the redaction is that it does not want to give FortisBC "*inside information regarding the impact to BC Hydro of its actions.*"

On the face of it, this sounds like a legitimate reason to withhold information. However, the public is still entitled to understand the magnitude of any potential risks. BC Hydro needs to make it clear what the maximum impact of such a change could be, albeit without encouraging Fortis to take actions that could harm BC Hydro.

It should be assumed that FortisBC will act in its own best interest, not in a way specifically designed to inflict maximum damage on BC Hydro. The Transaction should be evaluated using the assumption that FortisBC will act to maximize its own best interest.

To have a sustainable relationship, BC Hydro needs to understand what is in FortisBC's best interest, and design the business arrangement with so that it is in the best interest of both parties. In such an arrangement, neither party has an incentive to terminate the relationship. That is the arrangement that should be reflected in the Transaction – because that would be a relationship that is sustainable.

The final comment on the Valuation Model redactions is "the estimated use of Line 71 by FortisBC." CEABC does not believe this will have a significant impact on the value of the Transaction but, nonetheless, the Transaction should be valued based on whatever level of usage will create the least value for BC Hydro. In other words, this action or inaction by FortisBC should not be relied on to create value for BC Hydro.

#### 4. COMMENTS ON REDACTIONS TO THE BUSINESS CASE

BC Hydro's approach to redactions to the Business Case is reminiscent of the approach it originally took to confidential information with respect to an Energy Supply Contract with Alcan Inc., "LTEPA Amending Agreement, Amended and Restated Long-Term Electricity Purchase Agreement". According to the BCUC's Reasons for Decision dated November 17, 2006 to Order No. G-142-06<sup>8</sup>:

*"On November 1, 2006 BC Hydro filed, pursuant to Section 71 of the Utilities Commission Act ("UCA") the LTEPA Amending Agreement dated October 27, 2007 between BC Hydro and Alcan, which attached the form of the Amended and Restated LTEPA between those same parties, together with a letter dated October 7, 2006 from Alcan to BC Hydro and the Province (the "Letter"). The filing was made on a confidential basis. The filing seeks to have the LTEPA Amending Agreement and the resulting Amended and Restated LTEPA filed as an energy supply contract pursuant to Section 71 of the UCA. At the Third Procedural Conference, BC Hydro withdrew its claim of confidentiality on the first two documents, but maintained its claim for confidentiality on the Letter pending authorization from the Province."*

In its second attempt for approval, BC Hydro took a far more reasoned approach to confidentiality<sup>9</sup>:

*The 2007 EPA is materially different from the 2006 Energy Purchase Agreement with Alcan (LTEPA+) reviewed by the BCUC and found not to be in the public interest in Order G-176-06. BC Hydro believes that the EPA should be reviewed on its own merits but recognizes that it will be important for stakeholders and the BCUC to understand how issues that were prominent in the context of the review of LTEPA+ were handled in the 2007 EPA. BC Hydro fully supports an open and transparent process to permit this review. To that end, BC Hydro is making publicly available the 2007 EPA and a comprehensive report that fully describes it and the role the power supplied under it will play in helping BC Hydro meet the demands of its customers..."*

While the CEABC appreciates the need for confidentiality in certain situations, the Alcan applications demonstrate that excessive confidentiality serves no useful purpose and can be readily dispensed with by BC Hydro as the circumstances require.

The comments that the CEABC has with respect to the redactions to the Business Model are virtually the same as those identified above with respect to the above comments on the Rate Impact and Valuation Models. In addition, the concerns that BC Hydro has about the extrapolated forecast and price curves are unfounded. They are forecasts that may or may not

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<sup>8</sup> Page 1.

<sup>9</sup> Exhibit B1-1, BC Hydro and Alcan 2007 Energy Purchase Agreement dated August 13, 2007 (2007 EPA) page 1 of the forwarding letter.

be correct. Price curves were the subject of discussion by an official from Powerex in BC Hydro's Technical presentation in the Site C proceedings<sup>10</sup>. There should be no need for confidentiality with respect to the Transaction. The respective curves and material for this transaction may not be the same as for Site C but the principles concerning confidentiality are.

## 5. Conclusion

The CEABC has been reluctant to get involved in the discussion about BC Hydro's approach to confidentiality in relation to the Transaction. It planned to review the responses to its' Information Requests and then make any comments it had to the BCUC and/or BC Hydro. CEABC prefers not to enter into confidentiality provisions whether they are between its legal counsel, consultants, executive director or directors and others in BCUC proceedings. These provisions restrain communication of all types including communication with CEABC members including the preparation of material for submission to the BCUC.

The CEABC believes that the approach that BC Hydro **took** with respect to the Alcan 2007 contract would be preferable to the one being taken with respect to the Transaction. A full explanation of this transaction including all the details would be greatly appreciated.

All of which is respectfully submitted.

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<sup>10</sup>Transcript V14, pages 1656 to 1658.