

October 11, 2016

Delivered via email to Commission.Secretary@bcuc.com

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC Canada V6Z 2N3

Dear Sirs/Mesdames:

Re: British Columbia Hydro and Power Authority
Project No.3698781
2015 Rate Design Application Module 1 – RS 1823

Pursuant to the directions of the Commission in its letter of August 29th 2016, the Canadian Association of Petroleum Producers (CAPP) is submitting its written final argument. CAPP's members have a direct interest in the RS 1823 aspect of Module 1 that has been examined in the evidentiary portion of this hearing. As both existing and potential Transmission Service customers of BC Hydro, CAPP's members have an interest in rate design matters associated with this service. As such, the attached written argument focuses on these particular matters.

Yours truly,



Mark Pinney

Cc Mr. Tom Loski, BC Hydro

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**Written Argument of Canadian Association of Petroleum Producers
British Columbia Hydro and Power Authority
Project No.3698781
2015 Rate Design Application Module 1**

As both existing and potential Transmission Service customers of BC Hydro, CAPP's members have an interest in rate design matters associated with this service. RS 1823 is the default two-step rate for Transmission Service Customers and, in its application, BC Hydro notes that Direction No. 7 requires that the Commission ensure that these rates are consistent with Recommendation #8 of the Heritage Contract Report (see Exhibit B-1, page 7-6). As such RS 1823 must adhere to the following:

- The Tier 2 rate should reflect BC Hydro's energy LRMC;
- The quantity of Tier 1 power sold to Transmission Service customers should be set at 90 per cent, and the Tier 2 quantity should make up the remaining 10 per cent; and
- The Tier 1 rate should be derived from the Tier 2 rate and the Tier 1/Tier 2 90/10 split to achieve, to the extent reasonably possible, revenue neutrality.

Thus, any evaluation of BC Hydro's application with respect to RS 1823 rate design matters cannot be made in isolation from these directives. CAPP is mindful of these directives as it addresses these matters in its following argument.

1. Establishing Pricing Principles for RS 1823

BC Hydro is seeking approval of certain pricing principles that establish the manner in which RRA rate increases are applied to the pricing elements of RS 1823 (Exhibit B-1 section 7.2.2). The application outlines three options for the application of RRA rate increases during the F2017 to F2019 period. Of these options, BC Hydro prefers Option 1 whereby in F2017 Tier 2 is set to the lower end of the energy Long Run Marginal Cost (LRMC) range and Tier 1 is set to attain customer bill neutrality. Thereafter (F2018/F2019), RRA rate increases would be applied equally to each element of RS 1823. Accordingly, the application of the RRA rate increases to both the Tier 1 and Tier 2 rates in F2018 and F2019 maintains Tier 2 within the range of LRMC (with inflation).

CAPP concurs with BC Hydro that this option is the best method to apply RRA rate increases to the pricing elements of RS 1823 during the F2017 to F2019 period. CAPP's support is based on the fact that: this approach maintains the relative price differential between Tier 1 and Tier 2; maintains customer bill neutrality in all years and forecast revenue neutrality in two of the three years; is easily understood; and is consistent with how RRA increases have been applied to other rates.

BC Hydro also considered two other options. Option 2 would set the Tier 2 rate to the lower end of the LRMC range and RRA rate increases are applied to Tier 1 rates. A significant disadvantage associated with Option 2 is that this option would diminish the

signal to customers to conserve energy because, over time, the Tier 1 and Tier 2 differential will decrease as RRA rate increases would only be applied to the Tier 1 rate.

A third option considered would be to hold Tier 1 rates constant at the F2016 level and apply all of the RRA increases to Tier 2 rates. Given that only 10% of a customer's baseline is priced at Tier 2 the increase required to cover the revenue requirement for RS 1823 customers would necessarily be substantial (Exhibit B-1 Appendix C-5A page 94). Tier 2 rate increases would be capped, however, as these rates would exceed the upper end of the LRMC range beginning in 2018. At this time Tier 1 rates would then need to be adjusted accordingly. CAPP does not support Option 3 as this option is not forecast revenue neutral and results in much higher rates to transmission service customers than either of the other options being considered.

2. Revenue Neutrality

To the extent that RS 1823 must adhere to the objective of revenue neutrality, BC Hydro is proposing to use a definition of customer bill neutrality rather than a definition of forecast revenue neutrality in order to set rates (Exhibit B-1, page 7-13). Under customer bill neutrality if a RS 1823 customer does not change its usage relative to its customer base line, the customer's bill remains unchanged. As such, bill neutrality is defined by following equation:

$$\text{Current Flat Rate (RS 1823A and RS 1827) } \times (\text{RRA per cent increase}) = [0.90 \times \text{current Tier 1 Rate}] \times [\text{Tier 1 Rate per cent increase}] + [0.10 \times \text{current Tier 2 Rate}] \times [\text{Tier 2 Rate per cent increase}].$$

Under the alternative approach of forecast revenue neutrality, target revenue is calculated by the forecast load multiplied by the previous year's rates and the RRA rate increase. Forecast revenue neutrality is thus defined by following equation:

$$\text{Target RS 1823 Revenue} = [\text{Forecast Tier 1 GWh} \times \text{current Tier 1 Rate} \times \text{RRA per cent increase}] \times [\text{Tier 1 Rate per cent increase/RRA per cent}] + [\text{Forecast Tier 2 GWh} \times \text{current Tier 2 Rate} \times \text{RRA per cent increase}] \times [\text{Tier 2 Rate per cent increase/RRA per cent increase}].$$

CAPP agrees with BC Hydro and supports the continued use of bill neutrality as the definition of 'revenue neutral' in the calculation of RS 1823 Tier 1 and Tier 2 rates. CAPP considers that the bill neutral approach is more administratively straightforward for customers to understand and compliments the Option 1 approach of applying RRA rate increases uniformly to Tier 1 and Tier 2 rates. In addition, continued use of bill neutrality is supported by the fact that, over time, the Transmission Service Class R/C ratio under various cost of service methodologies lies consistently above 100 indicating that this rate class is not being subsidized by other rate classes (Exhibit B-1 page 7-14).

3. Demand Charge

BC Hydro indicates that it supports retaining the current definition of RS 1823 demand charge provisions (Exhibit B-1, page 7-15).

The RS 1823 demand charge is specified as \$/kV.A of Billing Demand per Billing Period. The demand charge is the higher of:

- Highest kV.A demand during HLH¹ in the billing period;
- 75 per cent of the highest Billing Demand during the immediately preceding period of November to February; or
- 50 per cent of Contract Demand in the customer's Electricity Supply Agreement.

CAPP supports maintaining the existing definition of Billing Demand. Approximately 60% of demand-related costs are recovered by the demand charge for transmission service customers (Exhibit B52, Response to Undertaking No. 19). It is a common practice for utilities to recover a portion of demand related costs through energy rates. (Exhibit B-1, page 7-16) In any event, BC Hydro does not have an unfettered ability to alter the portion of demand-related costs recovered through the demand charge as the utility must be mindful of ensuring the Tier 2 rate does not fall below the lower end of the energy LRMC. Without any compelling reason to change CAPP does not see a reason to depart from the current methodology for defining Billing Demand under RS 1823.

CAPP has confined its argument to issues related to RS 1823. While BC Hydro's application also addresses existing and potential transmission service rate options to this rate schedule, as CAPP noted in its intervention (Exhibit C13-1), its members are primarily high load factor RS 1823 customers that are not generally in a position to take advantage of these other rate options.

CAPP wishes to thank the Commission for the consideration of its submissions in Module 1 of this proceeding and looks forward to participating in Module 2.

¹ HLH – is the High Load Hours of 0600 to 2200 Monday to Saturday, except Sundays and statutory holidays