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Our reference 1001093474

January 10, 2020

Submitted via eFiling System

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

BC Hydro and Power Authority Fleet Electrification Rate Application
Association of Major Power Customers of British Columbia (AMPC) – Final Argument

We are legal counsel to AMPC and write to submit AMPC's Final Argument in this proceeding.

Please contact the writer if you have any questions.

Yours very truly,

Emily Chan
Senior Associate

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Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
FLEET ELECTRIFICATION RATE APPLICATION

PROJECT NO. 1599032

ASSOCIATION OF MAJOR POWER CUSTOMERS OF BC

FINAL ARGUMENT

January 10, 2020

British Columbia Utilities Commission ("BCUC" or "Commission")

BC Hydro and Power Authority Fleet Electrification Rate Application ("Application")

Final Argument of the Association of Major Power Customers of BC ("AMPC")

I. INTRODUCTION AND OVERVIEW

1. AMPC is a longstanding industry association that represents major industrial operators in BC, including the pulp and paper, forestry, mining, electrochemical and petrochemical industries, in matters of electricity regulation. AMPC's members provide many natural resources and industrial sector jobs throughout BC. Many of these operators are energy intensive and trade-exposed customers who are disproportionately affected by changes to industrial electricity rates. AMPC's mandate is to ensure that industrial customers' electricity rates in BC are competitive, fair, and efficient.

2. AMPC generally supports BC Hydro's Application for Fleet Electrification Rates as filed, particularly BC Hydro's proposal to file a three-year evaluation report for the Demand Transition Rate and Overnight Rate by December 30, 2023 and December 30, 2024, respectively.

3. AMPC's submission is focused on highlighting several core principles that should inform the Commission's analysis of BC Hydro's proposed rates:

    a. Rates with a public policy component must be assessed on their merits, on a case-by-case basis, and using a principled approach that reflects the Bonbright principles; and

    b. The economic justification for rates should consider both short- and long-term benefits and the risk of potential cross-subsidies.

4. AMPC elaborates on each of these points below.

II. DETAILED LEGAL ARGUMENT

5. As background context, AMPC generally supports BC Hydro's development of optional rates that encourage long-term investment and competitiveness in BC. AMPC recognizes that the proposed Fleet Electrification Rates are intended to remove barriers to the electrification of fleet vehicles and vessels and in doing so, attract load to BC Hydro's system. To the extent that the Fleet Electrification Rates reduce greenhouse gas emissions, this a benefit to all British Columbians.

6. AMPC has reviewed BC Hydro's final argument and agrees with the cited Commission determination that rates intended to advance a public policy purpose must be fair, just, reasonable and not unduly discriminatory, and must stand independently on a cost-of-service or economic basis, regardless of the merits of the public policy purpose.[1]

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[1] BC Hydro's Final Argument, p. 12, citing BCUC's Reasons for Decision to Order G-124-08 regarding BC Hydro's Residential Inclining Block Rate Application, dated September 24, 2008,

7. Within this context, AMPC accepts the cost-of-service and economic justifications for the Overnight Rate because that rate is expected to immediately recover embedded costs associated with that service, result in a fair allocation of costs among ratepayers, and therefore, avoid potential cross-subsidies.[2]

8. The economic justification for the Demand Transition Rate is different. It relies on BC Hydro's estimate that the incremental revenues received from new load will exceed the incremental cost of serving new load in the long-term, i.e., a ten to fifteen year time period.[3] BC Hydro acknowledges there may be an under-recovery of its embedded or average costs in the short-term,[4] and that the new load must have certain characteristics to ensure that ratepayers are ultimately held harmless (e.g., load must remain until F2029 and load factor must meet certain levels in F2021-F2025 and F2026-F2029).[5]

9. BC Hydro explains, however, that ratepayers *will still be better off* so long as the incremental revenues from the Demand Transition Rate exceed marginal costs, as the difference between incremental revenues and marginal costs will make a contribution to fixed costs, reducing pressure on rates for all customers [*emphasis added*].[6]

10. Because BC Hydro has designed its Demand Transition Rate with the purpose of attracting new load that has not yet materialized, there is "considerable uncertainty" about whether the new load will materialize on the modelled timeline and with the characteristics that BC Hydro identifies.[7] There is also uncertainty about whether the incremental revenues received from the new load will be sufficient to recover marginal costs (which are also subject to change)[8], let alone embedded costs. As a result, there is a risk that the Demand Transition Rate will give rise to potential cross-subsidies. If so, this may result in potentially unfair apportionment of costs among ratepayers, under the Bonbright principles, in either the near- or longer-term.

11. Each rate proposal must be evaluated on its own merits. In this case, AMPC also accepts the long-term business case for the Demand Transition Rate (i.e., load will be attracted at sufficient levels to leave other customers better off). The public policy benefits of the Demand Transition Rates are clear. On the whole, in spite of potential short-term cross-subsidy risks, AMPC supports the Demand Transition Rate as filed.

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p. 51 and BCUC's Reasons for Decision to Order G-87-17 regarding BCOAPO's Application for Reconsideration and Variance of Order G-5-17, dated June 2, 2017, p. 12.

[2] Ex. B-5, BC Hydro's Response to AMPC IR 1.3.2.

[3] Ex. B-1, Application, Table 7, p. 47; BC Hydro's Final Argument, p. 15.

[4] Ex. B-5, BC Hydro Response to AMPC IR 1.1.3.

[5] Ex. B-5, BC Hydro's Response to AMPC IR 1.4.1.

[6] Ex. B-5, BC Hydro's Response to AMPC IR 1.1.3.

[7] Ex. B-1, Application, p. 45.

[8] Ex. B-5, BC Hydro's Response to AMPC IR 1.1.3.

III. CONCLUSIONS

12. On the basis of the above, AMPC supports:

    a. BC Hydro's Application for the Overnight Rate (150kW and over) and Demand Transition Rate (150kW and over) as filed; and

    b. a Commission direction for BC Hydro to file a three-year evaluation report for the Demand Transition Rate and Overnight Rate by December 30, 2023 and December 30, 2024, respectively.

All of which is respectfully submitted January 10th, 2020

Norton Rose Fulbright LLP

Emily Chan

Counsel to the Association of Major Customers of BC