

April 8, 2020

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British Columbia Utilities Commission  
Suite 410, 900 Howe Street  
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**Attention: Patrick Wruck, Commission Secretary**

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Your reference  
Project No. 1599053

Our reference  
1000373102

Dear Mr. Wruck:

**BC Hydro and Power Authority  
Transmission Service Market Reference-Priced Rates Application – Freshet Rate  
Association of Major Power Customers (AMPC) Final Argument**

We are legal counsel to AMPC. Pursuant to Orders Nos. G-327-19 and G-49-20, we write to submit AMPC's Final Argument regarding the Freshet Rate (Rate Schedule 1892) component of the above-noted proceeding.

Please contact the writer if you have any questions.

Yours very truly,



(for) Matthew D. Keen

MDK/roe

Encl.

**BRITISH COLUMBIA UTILITIES COMMISSION**

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY  
TRANSMISSION SERVICE MARKET REFERENCE-PRICED RATES APPLICATION  
FRESHET RATE COMPONENT**

**PROJECT NO. 1599053**

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**ASSOCIATION OF MAJOR POWER CUSTOMERS OF BC**

**FINAL ARGUMENT**

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**April 8, 2020**

**British Columbia Utilities Commission (“BCUC” or “Commission”)**  
**Transmission Service Market Reference-Priced Rates Application – Freshet Rate**  
**Final Argument of the Association of Major Power Customers of BC (“AMPC”)**

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**I. INTRODUCTION AND OVERVIEW**

1. AMPC is a longstanding industry association that represents large BC Hydro industrial customers in matters of electricity regulation. AMPC members operate in the pulp and paper, forestry, mining, and electrochemical sectors, and provide many natural resource sector jobs throughout the province. Most members are energy intensive and trade-exposed, with their competitiveness accordingly directly affected by electricity rates.
2. Pursuant to Orders Nos. G-327-19 and G-49-20, the Commission determined that the Freshet Rate (Rate Schedule 1892) component of BC Hydro’s Transmission Service Market Reference-Priced Rates Application would be considered separately from the Incremental Energy Rate Pilot (Rate Schedule 1893).
3. AMPC files this final argument in support of BC Hydro’s application for permanent approval of the Freshet Rate. The permanent Freshet Rate proposed by BC Hydro has substantially the same design as the rate that was in place during the four year Freshet Pilot period, with the exception of certain minor, non-substantive amendments.
4. AMPC members participated in all four years of Freshet Pilot and in BC Hydro’s recent consultations regarding the proposed Freshet Rate. The Freshet Pilot was a well-received and successful program that allowed industrial customers to increase their energy consumption and take advantage of BC Hydro’s freshet energy surplus.<sup>1</sup>
5. As BC Hydro’s Application establishes, over the four years of the pilot:
  - Approximately 30 percent of eligible customers participated in the Freshet Rate pilot from a broad cross-section of industry;
  - Domestic energy sales increased by 569 GWh and revenue from participant customers increased by \$14.8 million; and
  - There was an estimated net revenue gain of \$5.8 million, before adjustment for implementation costs or potential load shifting.<sup>2</sup>
6. The benefits associated with load growth and net revenue gains from the Freshet Pilot accrued to participating customers, all other ratepayers, and the BC economy generally. Pilot participants’ average unit cost of power decreased, on the condition of an increase in electricity consumption. BC Hydro received system benefits, and other ratepayers benefitted from (and were robustly protected by) net revenues from the energy charge adder.
7. The Freshet Rate design has proved to be a “win-win-win” scenario and should be approved as proposed. Potential changes contemplated by information requests are short-sighted, would have a detrimental impact overall, and should be rejected. AMPC elaborates below.

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<sup>1</sup> Ex. B-1, Application, Appendix F, pp. 1-2.

<sup>2</sup> Ex. B-1, Application, p. 16.

## II. ARGUMENT

8. The two rounds of Commission and intervener information requests both reflect concerns about the risk of a revenue loss from the Freshet Rate and how this may affect ratepayers. Mechanisms such as provisions to allow economic interruption, curtailment, or suspension of the Freshet Rate in certain circumstances have been suggested as potential ways to reduce the risk of (deemed) under-recovery in any particular year.<sup>3</sup> Proposals have also been made to require BC Hydro to review the Freshet Rate sooner than the proposed ten year period, including as often as on a yearly basis.<sup>4</sup> The basis for the concern appears to be that during the Freshet Pilot, energy adder revenues exceeded estimated costs in only three out of four years, despite the facts that net program revenues were highly positive and the fourth year reflected very atypical market conditions.
9. AMPC strongly disagrees with the contemplated modifications because they would make the rate less attractive to program participants in one way or another, ignoring both that the existing adder is designed to over-collect from program participants out of an abundance of caution, and freshet energy sales are incremental energy sales. At bottom, there is simply no evidence that more caution is warranted than is already built into the current design.

### Adverse unintended consequences

10. Suggestions by, or on behalf of, other rate class representatives for such measures, based on an exaggerated sense of risk, or inadequate benefit sharing,<sup>5</sup> would amount to “cutting off the nose to spite the face”, because implementing these disincentives would likely reduce industry’s use of the rate.
11. Reduced adder revenue would in turn directly harm other ratepayers. It would have indirect negative effects too, as the missing incremental electricity consumption implies lower industrial output and forgone economic benefits for the Province. Instead, to the extent that BC Hydro customers are not able to access the benefits of its energy surplus during the freshet period, those benefits will slip outside BC to jurisdictions that BC Hydro exports to.
12. Concerning benefit sharing, the lower average unit cost of power that participating customers achieve from program participation comes at no direct cost to non-participating customers. The limited risk that non-participating customers face is more than adequately compensated for via the energy charge adder. Conversely, program participants face all of the market price risk, the risk of CBL resets under RS 1823, and an increase in their existing business risk given that freshet energy is a non-firm service. In this light, the Freshet Rate at the very least adequately benefits other rate classes under the existing structure.

### No justification for increased energy charge adder

13. There is no rational basis to increase the energy charge adder because there is no evidence that there is a likely risk of material program under-collection at the present level. No party

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<sup>3</sup> Ex. B-4, BCUC Staff IR 1.9.4, 1.9.5, 1.9.6. Ex. B-5, BCOAPO IR 1.3.1, 1.3.2, 1.30.1, and BCSEA IR 1.3.1, 1.3.2.

<sup>4</sup> Ex. B-7, BCUC Staff IR 2.0.

<sup>5</sup> Ex. B-5, CEC IR 1.7.1.

sought to file any such evidence, and the Commission should prefer the four years of pilot program outcomes, supplemented by BC Hydro's comprehensive financial modelling in support of the energy adder charge, to any bare speculation offered in argument.

14. To be clear, BC Hydro's financial modelling shows the adder is more than adequate to mitigate the risk of additional costs to other rate classes, full stop. But it is important to realize that this modelling is conservative. While BC Hydro alludes to its expectation that lower customer participation in response to high Mid-C pricing would reduce the overall risk to revenues in its Application,<sup>6</sup> it does not incorporate this factor into its modelling. In other words, the model reflects a "worst case scenario", and by not adjusting for likely customer behavior BC Hydro ignores a self-correcting factor that would mitigate revenue loss.
15. In detail, BC Hydro modelled six energy charge adder alternatives, varying the energy price but keeping all other inputs constant.<sup>7</sup> On this basis BC Hydro forecasts a 10 percent chance of a minor revenue loss (approximately \$0.3 million for 243 GWh of incremental energy sales),<sup>8</sup> tied to the risk of low water inflows and corresponding market energy imports. BC Hydro's revenue loss calculation assumes that industry continues to purchase freshet energy at similar amounts as under other conditions (243 GWh purchased versus 293 GWh purchased under high revenue conditions<sup>9</sup>). In making this assumption, however, BC Hydro omits rational customer behavior. In actuality, during low water inflows it is likely that Mid-C market pricing would increase due to lower supply and increased demand,<sup>10</sup> which in turn would reduce industrial demand for freshet energy purchases. The risk of revenue losses is therefore likely even lower than BC Hydro's model shows.
16. Increasing the energy charge adder would reduce the attractiveness of the Freshet Rate by eroding the price signal to customers to participate. Again, that would defeat some of the purpose of the rate and leave more of BC Hydro's surplus power to be sold on the Mid-C market to the benefit of US customers, rather than BC Hydro's own domestic customers.

#### **A 10-year review period is reasonable**

17. BC Hydro's proposal to review the Freshet Rate in 10 years is calibrated to the anticipated duration of its energy surplus<sup>11</sup> and is therefore reasonable. Four years of performance demonstrate that the rate can stand on its own legs, so long as the relevant economic premises remain intact.
18. The certainty of a permanent rate for business planning will also allow industry to make full use of the rate while BC Hydro's energy surplus is in place. Certainty is critical for customers to consider making investments to maximize the rate opportunity. And again, incremental energy sales benefit all ratepayers.

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<sup>6</sup> Ex. B-1, Application, pp. 60-61, ll.23-3 and p. 81, ll. 17-22.

<sup>7</sup> Ex. B-1, Application, pp. 76 and 79-80.

<sup>8</sup> Ex. B-1, Application, p. 79.

<sup>9</sup> Ex. B-1, Application, pp. 79-80.

<sup>10</sup> Ex. B-1, Application, p. 81, ll. 1-5.

<sup>11</sup> Ex. B-5, BC Hydro's response to MoveUP IR 1.3.1.

19. Conversely, requiring BC Hydro to evaluate and justify the Freshet Rate on a more frequent basis diminishes the incentive for potential Freshet Rate customers to invest time and resources into understanding the economic opportunity and operational impacts of a relatively complex rate. Absent fundamental changes in how BC Hydro manages its freshet surplus, more frequent reporting than 10 years would be a redundant administrative burden.

**Economic curtailment is neither possible nor justified given the adder**

20. Even if it were possible – and it is not, as BC Hydro clearly explains in response to information requests<sup>12</sup> – any rate modification that would attempt to have BC Hydro interrupt the Freshet Rate on an economic basis risks the same hazard as above. Customers are less likely to invest time and resources into participating in a complex rate if there is the specter that the rate will be suspended.

21. There is also no need to take such steps. The risk of deemed revenue losses in atypical years is robustly compensated for by the energy adder. Indeed, given the adder is designed to generate revenue for other rate classes in most years, AMPC expects that a key issue within any review will be whether the level of the energy adder is too high.

**III. CONCLUSION**

22. The Freshet Rate creates benefits for participants, BC Hydro, all other ratepayers, and the Province of BC. It does this through more affordable rates, load growth, and incremental revenue. But the less that industrial customers access the Freshet Rate, the more the benefits of BC Hydro's surplus freshet energy go elsewhere. Potential changes to the rate intimated by IRs would make it less attractive and are therefore ill-advised. They should be rejected.

23. For the reasons set out above and in BC Hydro's Final Argument, the Commission should approve the Freshet Rate as filed.

All of which is respectfully submitted April 8, 2020.

**Norton Rose Fulbright Canada LLP**



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Emily Chan



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Matthew D. Keen

Counsel to the Association of Major Power Customers of BC

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<sup>12</sup> Ex. B-4, BC Hydro's response to BCUC Staff IR 1.9.4. Ex. B-5, BC Hydro's response to BCSEA IR 1.3.1.