

July 6, 2020

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British Columbia Utilities Commission
Suite 410, 900 Howe Street
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**Attention: Marija Tresoglavic,
Acting Commission Secretary**

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Your reference	Our reference
Project No. 1599053	1000373102

Dear Ms. Tresoglavic:

**BC Hydro and Power Authority – Transmission Service Market Reference-Priced Rates
Application (Application) – Incremental Energy Rate Pilot (RS 1893)
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 Incremental Energy Rate pilot program (Rate Schedule 1893).

Please contact the writer if you have any questions.

Yours very truly,



Matthew D. Keen

Encl.

c. AMPC

Melissa Davies, MNYD Consulting

BRITISH COLUMBIA UTILITIES COMMISSION

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
TRANSMISSION SERVICE MARKET REFERENCE-PRICED RATES APPLICATION
INCREMENTAL ENERGY RATE PILOT**

PROJECT NO. 1599053

ASSOCIATION OF MAJOR POWER CUSTOMERS OF BC

FINAL ARGUMENT

July 6, 2020

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

I. INTRODUCTION

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). Commission Order G-300-19 approved both rates on an interim and non-refundable basis as of January 1, 2020.
3. On April 8, 2020 AMPC filed final argument supporting the Freshet Rate. This final argument likewise supports BC Hydro’s application for the Incremental Energy Rate Pilot, being a 51 month pilot program between January 1, 2020 and March 31, 2024.
4. BC Hydro consulted AMPC about the design of this pilot rate. Like the Freshet rate pilot, it will create opportunities for industrial customers to manage electricity bills, improving their competitiveness while growing BC Hydro’s domestic electricity demand.
5. Optionality in rates for industrial customers is especially beneficial in turbulent and changing economic conditions. Flexibility helps industrial customers manage their individual operations and identify commercial opportunities to remain competitive.
6. BC Hydro’s Final Argument is clear that the incremental energy rate: i) provides opportunities for transmission service customers to operate their idle and/or flexible production capacity that in the absence of the incremental energy rate would be underutilized; and ii) encourages incremental domestic energy use, which provides economic benefits to all BC Hydro ratepayers.¹
7. Further, this rate directly supports the BC Government Phase I Comprehensive Review conclusion to increase electricity demand and helps position BC as a more competitive jurisdiction for future industrial customers.²
8. The Commission should therefore approve the pilot rate as filed. AMPC provides more detailed comments below.

¹ BC Hydro Final Argument, June 29, 2020, page 2.

² British Columbia Ministry of Energy, Mines and Petroleum Resources, Comprehensive Review of BC Hydro: Phase I Final Report, February 2019, page 33.

II. ARGUMENT

Overall

9. Fundamentally, the Commission should approve this rate because it benefits participants as well as all other ratepayers (including non-participating industrial customers / AMPC members). The rate does so by incentivizing incremental domestic energy usage with more competitive electricity prices, which should both increase economic activity and attract more load. Yet the rate is conservative: its interruptible nature and the \$7 MWh “adder” fee amply protect other rate classes from the risk of cross-subsidy.
10. It is important to note that the rate allows participating customers to access BC Hydro’s energy surplus at prices comparable to what their industrial competitors pay in neighbouring jurisdictions and the US, i.e., the pricing BC Hydro receives for exports. Levelling the playing field is a key competitiveness consideration.
11. As the record shows, the Freshet pilot was successful for both participating AMPC members and other rate classes. AMPC strongly supported the development of the incremental energy rate and continues to do so. Four months of interim rates under the pilot have yielded positive results in the order of \$3.7 million.³ Incremental economic output and consumption cannot and should not be expected under Tier 2 pricing.
12. This economic evaluation fully justifies the rate, and AMPC agrees with BC Hydro that BC Hydro need not demonstrate that the rate will generate social benefits to obtain pilot approval.⁴ Nonetheless, AMPC fully expects that optional rates with competitive pricing in the COVID-19 environment will generate important social benefits by assisting with the Province’s economic recovery. Access to this program over the coming years will be beneficial to customers working to recover and make up lost ground.
13. In the course of this proceeding and the two rounds of information requests on the incremental energy rate pilot, there were a number of areas canvassed by interveners and the Commission. BC Hydro addressed many of these areas in its Final Argument filed on June 29, 2020. Below AMPC addresses areas of particular interest that arose over the course of this proceeding.

Energy Capacity Adder

14. BC Hydro proposes a \$7/MWh charge in non-freshet months (August - April) and a \$3/MWh charge in freshet months (May - July). BC Hydro provides detailed analysis and support of this structure in its Application.⁵
15. Consistent with its Freshet Rate argument, AMPC agrees that an adder mitigates against the potential financial downside for other ratepayers, and appropriately balances cost recovery from pilot participants with the financial risk to non-participating ratepayers.

³ Exhibit B-11, BCUC IR 3.4.3, includes \$3.1 million in additional revenue plus \$0.6 million energy adder.

⁴ Exhibit B-12, BC Hydro response to CEC IR 3.19.3, pdf page 152 of 162.

⁵ Exhibit B-1, BC Hydro Application, pages 39-41 and 75-78.

16. Also consistent with its Freshet Rate argument, AMPC expects that a \$7/MWh adder will over-collect from participating customers. BC Hydro's detailed analysis shows that there is a much higher probability of positive net revenues than negative net revenues. It covers well above the marginal costs in almost all forecast scenarios, and even a \$6/MWh adder (as AMPC originally supported) would still provide net revenues in *well over half* of all modelled operating conditions.⁶ AMPC looks forward to a review of the pilot results in 2023 and expects that there will be clear evidence to reduce the adder at that time, but at present is content to support the pilot as proposed.
17. BC Hydro also modelled a flat \$8/MWh non-freshet month energy capacity adder, which from AMPC's perspective would over-collect from participants to protect against negative financial results that are both low magnitude and low probability.⁷
18. An \$8/MWh adder would not materially increase net revenues for non-participants, with an expected net revenue difference of only \$150,000.⁸ This would be a highly conservative approach for little relative benefit (given the overall revenue requirement of \$5.2 billion, it amounts to a roughly 0.003% effect). However, for participants, this increase could materially diminish the competitiveness and usefulness of this pilot. AMPC therefore firmly opposes any suggestion of a \$8/MWh adder.

Pilot Program Evaluation

19. In its application, BC Hydro has proposed a list of 13 areas to monitor and evaluate.⁹ AMPC supports this list, and that it includes customer feedback on the rate.
20. AMPC expects that BC Hydro will include monitoring the marginal cost of energy over the 51 month pilot to determine whether the energy charge adder was appropriately priced (or if at finalization it requires either an upward or downward adjustment to better reflect actual costs).
21. AMPC supports BC Hydro's proposed evaluation timing. It is best conducted in December 2023, and reviewing the January 1, 2020 – March 30, 2023 period.¹⁰
22. The premise of this rate is to make use of the surplus energy position BC Hydro expects to be in for the long-term. The rate structure is built specifically to minimize risk to all ratepayers and protect non-participants from financial harm (by including the energy adder and requiring the service to be non-firm and interruptible).¹¹ AMPC submits that there is neither need nor benefit to ratepayers and the BCUC to review this pilot prior to BC Hydro's proposed schedule.

⁶ See Exhibit B-1, BC Hydro Application, page 78, Table 11, where net revenues are well above zero at the 50th percentile and considerable upside in the 90th percentile compared to the downside at the 10th percentile (i.e., much higher probability of positive net revenues than negative).

⁷ Exhibit B-1, BC Hydro Application, page 77, Table 7, which shows a positive net revenue in almost all system modelling conditions.

⁸ Exhibit B-12, BC Hydro response to Clean Energy Association of BC IR 3.15.5.

⁹ Exhibit B-1, BC Hydro Application, pages 84 – 85.

¹⁰ BC Hydro final argument, June 29, 2020, page 17-18.

¹¹ Exhibit B-1, BC Hydro Application, page 85.

23. Further, AMPC anticipates a full regulatory calendar for BC Hydro, the Commission and interveners in the coming years. This proceeding took substantial time and effort, spanning nine months before the Commission to date, not including the workshops and consultations undertaken prior to the Application's submission. An earlier review, and shorter pilot period, would detract from regulatory efficiency. The evaluation timeframe should benefit from both a range of conditions and a careful design that mitigates risk to non-participants.

Load Shifting

24. From the issues raised in this proceeding, there seems to be concern from interveners and the Commission about participants potentially shifting load from current BC Hydro rate schedules into this pilot.

25. BC Hydro's rate design is a full answer to this concern. The incremental energy rate effectively mitigates against this risk in much the same way as has been proven for the freshet rate design.¹² Specifically, as explained by BC Hydro in response to BCUC IRs 3.2.3 and 3.2.4, BC Hydro has included Special Conditions to RS 1893 to ensure that Customer Baselines are set in advance of participation in this program. This ensures that the customer's normal expected electricity usage is still charged at current transmission service rates, including any anticipated load growth. The Commission already reviews and approves each Customer Baseline on an annual basis and will continue to do so over the duration of this pilot.

26. To be clear, the risk of baseline resets is a powerful disincentive against load shifting. Key to understanding this issue is that industrial operations are capital-intensive and industrial customers generally take a long-term view for planning purposes. Industrial customers as a result tend to prefer dependable energy and reliable pricing. A baseline reset resulting from the use of RS 1893 would increase the unit cost of a customer's base load by increasing the fraction of consumption priced at Tier 2. It is therefore generally not beneficial for industrial customers to shift their base load onto this pilot and jeopardize their production capacity and increase the volatility of their input costs.

III. CONCLUSION

27. The incremental energy rate pilot provides benefits for participants, non-participants, BC Hydro and the Province of BC generally. Together with the freshet energy rate it helps BC Hydro develop a portfolio of competitively-priced rate options for industrial customers, to attract new customers and domestic energy usage. The energy adder ensures all marginal costs are recovered, mitigating any financial risk to ratepayers, except in the most extreme scenarios.

28. Moving forward, AMPC hopes to continue working with BC Hydro to develop competitive rate solutions.

29. For the reasons set out above and those in BC Hydro's Final Argument, the Commission should approve the Incremental Energy Rate as filed.

¹² Exhibit B-1, BC Hydro Application, page 17.