



**Tom A. Loski**  
Chief Regulatory Officer  
Phone: 604-623-4046  
Fax: 604-623-4407  
[bchydroregulatorygroup@bchydro.com](mailto:bchydroregulatorygroup@bchydro.com)

January 15, 2016

Ms. Erica Hamilton  
Commission Secretary  
British Columbia Utilities Commission  
Sixth Floor – 900 Howe Street  
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

**RE: British Columbia Utilities Commission (BCUC or Commission)  
British Columbia Hydro and Power Authority (BC Hydro)  
2015 Rate Design Application (2015 RDA)**

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BC Hydro writes in response to the Zone II Ratepayers Group (**Zone II RPG**) letter to the Commission dated January 8, 2016 (**Exhibit C36-4**) requesting that: 1) the Commission expand the scope of Module 1 of the 2015 Rate Design Application (**2015 RDA Module 1**) to include Zone II rates; and 2) the Commission direct BC Hydro to answer a number of Zone II RPG information requests (**IRs**) which relate to Zone II rate design and/or Revenue Requirement Application (**RRA**) issues.

BC Hydro opposes the two requests set out in Exhibit C36-4. Expanding the scope of 2015 RDA Module 1 to include Zone II rate design is not practical; the outcome would be an adjournment of at least the default Residential and General Service rate design portion of 2015 RDA Module 1 for at least 8 months, if not longer, to allow for Zone II rate design stakeholder engagement. This adjournment would be prejudicial in particular to Medium General Service (**MGS**) and Large General Service (**LGS**) customers who have concerns with the existing MGS and LGS rates. In addition, including Zone II rate design as part of 2015 RDA Module 1 entails risk to Zone II ratepayers because the default Residential and General Service rates, which form the basis of at least one Zone II rate design option, would not be known in advance of review and the setting of Zone II rates.

BC Hydro acknowledges that Zone II RPG can test the Residential Inclining Block (**RIB**) rate, alternatives to the RIB rate and the default General Service rate proposals and alternatives as part of 2015 RDA Module 1, and BC Hydro has responded to those Zone II IRs that test these subject matters.

## **Background**

BC Hydro filed 2015 RDA Module 1 on September 24, 2015 (**Exhibit B-1**). The scope of 2015 RDA Module 1 was informed by the extensive 2015 RDA Module 1 engagement

process. Consistent with the feedback received from all stakeholders during the 2015 RDA engagement process, BC Hydro proposed that review of Zone II rates be part of RDA Module 2:

- On May 8, 2014, at Workshop 1 of the 2015 RDA engagement process BC Hydro heard from a number of participants including Movement of United Professionals (formerly Canadian Office and Professional Employees Union Local 378), Association of Major Power Consumers (**AMPC**) and Commission staff that given the breadth of topics, the use of modules would be beneficial to structuring the review of the RDA. In the Workshop 1 consideration memo, BC Hydro agreed that modules would be useful for a broad application such as the 2015 RDA. Refer to Exhibit B-1, Appendix C1-A, pages 115-116 of 280;
- At Workshop 9b (held on May 21, 2015), BC Hydro specifically asked stakeholders to comment on BC Hydro's proposal to include Zone II rate design issues as part of RDA Module 2. In written feedback no stakeholder, including First Nations Energy & Mining Council (**FNEMC**), opposed BC Hydro's proposal to include Zone II rates as part of RDA Module 2. Refer to Section 7.1.2 of the Workshop 9a/9b consideration memo found at Exhibit B-1, Appendix C3-B, pages 352-354 of 609. FNEMC is a First Nations organization. Some First Nations are Zone II ratepayers. FNEMC acknowledged that Zone II rate design would be a Module 2 issue and noted that "As part of Module 2 upcoming workshops, FNEMC seeks more information on the segmentation of the NIA customers... This information will help inform development of further options and analysis." Refer to Exhibit B-1, Appendix C3-B, pages 398 of 609.
- At Workshop 12 on July 30, 2015, BC Hydro confirmed its intention to review Zone II rates as part of Module 2. BC Hydro received no opposition from stakeholders on this issue. British Columbia Old Age Pensioners Organization *et al* in its written feedback stated that "BC Hydro's proposed breakdown of the RDA topics to be addressed in Modules 1 and 2 makes sense". Refer to Exhibit B-1, Appendix C-1B, page 103 of 115. No other Workshop 12 participant provided feedback on this topic, including FNEMC.

Commission Order No. G-156-15 (**Exhibit A-2**) set the date of October 14, 2015 for registration of interveners and interested parties. In its request for intervention dated November 6, 2015 (Exhibit C36-1) Zone II RPG indicated it represents Kwadacha Nation, who takes service under Zone II rates. In Exhibit C36-2, Zone II RPG states that the Commission asked for information on issues Kwadacha Nation intended to pursue and the extent of Zone II RPG involvement in 2015 RDA Module 1. Zone II RPG acknowledged that the three options for Zone II rates "will be further discussed as part of Module 2". Zone II RPG goes on to state that, among other things, it intended to pursue issues associated with the default Residential and General Service rates.

The Commission through Exhibit A-2 sought comments on a number of 2015 RDA scoping issues, including a broad request in item #5 in Appendix B for input on "any other relevant matters parties wish to bring to the attention of the Panel before the procedural conference". Zone II RPG did not raise the issue of including the review of Zone II rates in 2015 RDA Module 1 in response to Exhibit A-2.

BC Hydro provides the following reasons for its opposition to the two requests made by Zone II RPG.

## **1 Inclusion of Zone II Rates in 2015 RDA Module 1**

### **1.1 Adjournment and Prejudice associated with Review of Zone II Rates after the Revenue Requirement Application**

Zone II RPG's preference with respect to its first request is that the Commission reconsider and revise the current 2015 RDA Module 1, Module 2 and RRA processes so that the RRA is reviewed prior to Module 1 or Module 2 of the RDA. Such a revision would result in an adjournment of well over one year. BC Hydro opposes such an adjournment and notes that throughout the 18 month 2015 RDA stakeholder engagement process, no party suggested that the review of the 2015 RDA should not proceed until after the F2017 RRA. BC Hydro believes that such an adjournment would prejudice other ratepayers particularly those taking service under LGS and MGS rates that have expressed concern with the current structures of those rates and are supportive of a move to flat rates for the MGS and LGS rate classes.

### **1.2 Adjournment and Prejudice associated with Review of Zone II Rates as part of 2015 RDA Module 1**

BC Hydro respectfully submits that it would be impractical to include review of Zone II rates in 2015 RDA Module 1.

To date, BC Hydro has not engaged Non-Integrated Area (**NIA**) customers with respect to potential rate designs for either Zone II or Zone 1B customers as part of the 2015 RDA stakeholder engagement process. Consistent with the approach taken for the Residential, General Service and Transmission Service rates, BC Hydro envisions having a number of engagement sessions with Zone II customers to present rate design alternatives and refine proposals based on feedback. Given the remote nature of many of the Zone II customers, BC Hydro would expect to hold multiple regional workshops in addition to a workshop in the Lower Mainland for other interested parties. BC Hydro expects that the Zone II rate design engagement process would require at least eight months, if not longer. Accordingly, the Zone II RPG request would result in an adjournment of the review of at least parts of 2015 RDA Module 1 while BC Hydro engages NIA customers and develops rate proposals.

Given that one of the Zone II rate options is to equalize Zone II rates with the default Residential and General Service rates, the RDA Module 1 Residential and General Service default rate proposals would be adjourned. Such an adjournment would prejudice MGS and LGS customers who are concerned with the existing MGS and LGS rates. In addition, such an adjournment would significantly and detrimentally impact the timing contemplated in the BC Minister of Energy and Mines letter dated July 6, 2015 (**Minister RIB Report Letter**). It appears from Exhibit C36-4 that Zone II RPG is of the view that matters such as the Electric Tariff Terms and Conditions must be addressed at

the same time as Zone II rate design. While BC Hydro does not agree with this view, it cites this example to demonstrate that it is not clear what additional 2015 RDA Module 1 matters would also be adjourned if the Commission grants the Zone II RPG request.

The Non-Integrated Areas Ratepayers Group (**NIARG**) communicated to BC Hydro that it opposes the Zone II RPG request to include Zone II rate design in 2015 RDA Module 1. NIARG indicated to BC Hydro that the inclusion of Zone II rate design in 2015 RDA Module 1 would significantly and unacceptably prejudice the current and prospective members of NIARG as their level of participation to date in 2015 RDA Module 1 has been on the assumption that Zone 1B and Zone II rate design issues would be dealt with in Module 2.

AMPC communicated to BC Hydro that given the significant interest that AMPC members have in elements of both Module 1 and Module 2, AMPC opposes significant delays to the current schedule absent truly exceptional circumstances. Canadian Association of Petroleum Producers communicated to BC Hydro that it opposes the Zone II RPG request on the basis that it would cause a significant delay in the review of 2015 RDA Module 1 rate design issues.

Zone II RPG makes a number of additional comments in respect of its first request, which are addressed in section 1.3 below.

### **1.3 Linkage between RIB and Zone II Rate Designs and Zone II rates and Electric Tariff Terms and Conditions**

Zone II RPG asserts that the Zone II rate design is derived from the Zone 1 RIB rate design and as such the Zone II rate design should be addressed in Module 1. This assertion is incorrect. The existing two step Zone II rate design has been in place since at least 1980, while the RIB was implemented in October 2008.

The Zone II RPG also argues that the Zone II rate design must be reviewed at the same time as the Electric Tariff Terms and Conditions. BC Hydro does not agree with this argument. The review of the Terms and Conditions can proceed in Module 1 in the absence of the review of Zone II rates. If specific terms and conditions for Zone II customers are required as a result of the preferred Zone II rate design identified through the Module 2 engagement process, these terms and conditions can be reviewed with the Zone II rate design.

Zone II RPG also claims that Zone II rate design should be considered at the same time as the Commission undertakes its review to respond to the Minister's RIB Report Letter. BC Hydro does not agree with this claim. First, the Commission cannot set a rate as part of its response to the Minister's RIB Report Letter. Second, as set out in Exhibit B-5, BC Hydro's responses to Zone II RPG IR 1.5.5 and to BC Sustainable Energy Association and Sierra Club of BC IR 1.12.2, Zone II ratepayers do not take service under the RIB rate and accordingly the Minister RIB Report Letter does not encompass Zone II rate design.

## 2 Direct BC Hydro to provide responses to Zone II RPG unanswered IRs

BC Hydro declined to answer a number of Zone II RPG IRs on the basis that they are out of scope for 2015 RDA Module 1. The following are examples:

- Detailed information with respect to Zone II rate design issues. Refer to Exhibit C-36-3, Zone II RPG 1.3, 1.4, 1.6 and 1.7 IR series and IR 1.8.1;
- RRA-related matters; refer to Exhibit C36-3, Zone II RPG IR 1.1.3. In Exhibit C36-4, Zone II RPG asserts that deferral accounts and the trajectory of BC Hydro rate increases are an important consideration in the RIB rate design. BC Hydro does not agree that BC Hydro's deferral accounts or the trajectory of BC Hydro's rate increase are relevant to the review of the RIB rate F2017-F2019 pricing principles or other rate design proposals for which BC Hydro is seeking approval as part of 2015 RDA Module 1. Issues related to deferral accounts are appropriately examined in a RRA. BC Hydro applied for pricing principles for the RIB rate (and Rate Schedule 1823) for F2017 to F2019 and these years coincide with the rate caps set out in section 9 of Direction No. 7. BC Hydro will make an application to the Commission seeking approval of pricing principles beyond F2019 prior to April 1, 2019. For these reasons BC Hydro does not see how the RRA issues raised by Zone II RPG are relevant to the relief sought by BC Hydro in 2015 RDA Module 1.

BC Hydro continues to be of the view that the unanswered Zone II RPG IRs go beyond the scope of 2015 RDA Module 1. If the Commission affirms that Zone II rates should appropriately be reviewed in Module 2, the Commission should also deny Zone II RPG's request for the Commission to direct BC Hydro provide responses to unanswered Zone II RPG IRs.

For further information, please contact Gordon Doyle at 604-623-3815 or by email at [bchydroregulatorygroup@bchydro.com](mailto:bchydroregulatorygroup@bchydro.com).

Yours sincerely,



Tom Loski  
Chief Regulatory Officer

gd/tn

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