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October 5, 2017

Mr. Patrick Wruck
Commission Secretary and Manager
Regulatory Support
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

**RE: Project No. Project No. 1598895
British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
FortisBC Self-Generation Policy Stage II Application
Request for Comments on Outstanding Issues**

We write to provide our comments on the FortisBC Inc. Self-Generation Policy Stage II Application (the **Application**) in accordance with the Commission's letter dated August 10, 2017 (Exhibit A-6 in the proceeding).

The Commission Panel's correspondence highlights FortisBC's response to Commission IR 1.3 in which FortisBC confirms that its Self-Generation Policy (**SGP**) proposal as set out in FortisBC's Application introduces the risk of harm to other customers (in the form of a potential increase in the cost of resources used to supply customers in general) relative to the status quo. The Panel noted that the concerns raised by FortisBC are important, and the Panel seeks input on whether "development of a Self-Generation Policy (SGP) is required and/or the most effective means for addressing issues including..." several issues listed in the Panel's correspondence.

Comments on FortisBC SGP Proposal

Summary

BC Hydro shares the concerns about the risk of harm to utility customers that could result from the activities FortisBC proposes to enable with its SGP proposal. BC Hydro's concerns are focused on the potential harm to BC Hydro customers.

The Self-Supply Obligation (**SSO**) methodology proposed by FortisBC in its Application does not conform to the principles of Commission Order No. G-38-01 and in particular

the principle of not requiring the utility to supply increased embedded cost of service to facilitate a self-generating customer's exports to market.

BC Hydro's customers will be harmed if the activities FortisBC proposes to enable result in an increase in the cost of resources BC Hydro uses to supply its customers in general or a decrease in trade income. We believe that such harm is a possible if not a likely outcome of FortisBC's SGP proposal. It might be possible to justify taking this risk and/or to adequately mitigate the risk, but FortisBC has not provided analysis of the extent of the risk, the justification for taking it or the options for mitigating the risk if taken.

Is development of a FortisBC SGP required?

With respect to the Panel's fundamental question of whether development of a SGP is required for the FortisBC service area at this time, in our view FortisBC has not clearly explained in its Application or in its Exhibit B-3 submission whether development of a SGP is required. At this point, it appears that the primary driver for FortisBC's Application is "concluding the work that has been done to date on the self-generation policies (SGP) in its service area".¹

The Application indicates that the SGP proposal might provide self-generators in the FortisBC service area with an enhanced opportunity to realize greater returns on historical investments,² rather than removing barriers or providing incentives for new investment in additional clean self-generation. BC Hydro believes that the SGP proposal likely would not result in new investment in cost-effective clean self-generation. FortisBC has not explained why it is necessary or appropriate to offer a service that provides self-generators in the FortisBC service area with an enhanced opportunity to realize greater returns on historical investments particularly when the enhanced returns would be at the expense of utility customers.

To the extent parties might be under the impression that FortisBC's SGP proposal is required to enable FortisBC self-generating customers to enter into an electricity purchase agreement with BC Hydro, we confirm that it is not needed for such purpose.

BC Hydro has been clear³, and to avoid any misplaced expectations of FortisBC self-generating customers, BC Hydro reiterates that it will not be purchasing power based on any SSO that may exist between FortisBC and a FortisBC self-generating customer unless the SSO is comparable to the baseline BC Hydro would determine for the purpose of acquiring incremental/new clean energy. For greater certainty, the

¹ Exhibit B-3, page 1.

² Exhibit B-2, FortisBC response to BCUC IR 1.1.2, page 2, lines 28-32.

³ BC Hydro made this point clear in its letter to FortisBC dated October 20, 2016, a copy of which is included in Appendix C to FortisBC's Application (Exhibit B-1, page 85 of 184).

FortisBC SGP is not required for self-generators in the FortisBC service area to sell incremental clean energy to BC Hydro, and BC Hydro would not use the SSO, as proposed by FortisBC, for that purpose. The proposed SGP is not needed for such purpose and likely would only cause problems for BC Hydro's resource acquisition processes.

What is the nature of the risk to BC Hydro customers?

Our understanding is that if a FortisBC self-generating customer uses the SSO-based service, with an SSO set at 50 per cent of what the self-generating customer generated in a recent representative year as proposed by FortisBC, FortisBC will require increased resources for the purpose of facilitating exports to market by that customer. The increase in resource requirements would be equal to the difference between the SSO and the customer's normal self-generation output. We understand that FortisBC intends to obtain such additional resources from its available stack of resources, including supply from BC Hydro under BC Hydro's Rate Schedule 3808 Power Purchase Agreement (**RS 3808 PPA**). In other words, the FortisBC self-generating customer using the SSO-based service would not provide the incremental generation needed to support the export to market, the incremental generation to support the export would be provided by either a FortisBC resource or a BC Hydro resource.

We provided a detailed analysis of these risks in BC Hydro's Application for Approval of the Section 2.5 Guidelines for the New Power Purchase Agreement with FortisBC – Rate Schedule 3808, Tariff Supplement No. 3 regarding Commission Order No. G-60-14 (the **BC Hydro RS 3808 PPA Section 2.5 Guidelines Application**), which was filed with the Commission on December 15, 2014 and has been held in abeyance since January 2015.⁴

Is FortisBC's proposed SGP the most effective means for addressing issues?

In our view FortisBC's SGP proposal would introduce the risk of harm to BC Hydro customers not only relative to the status quo but also relative to alternative policies and approaches FortisBC could have proposed.

There is no principled basis for the proposal to set an SSO at 50 per cent of what a self-generating customer generated in a recent representative year. FortisBC's Application does not provide analysis of the potential harm to FortisBC and/or BC Hydro customers that could result from FortisBC's preferred methodology, nor does it provide a review of the relative merits (pros and cons) of the alternatives to the proposed methodology using a SSO set at 50 per cent of a self-generator's historical self-generation output.

⁴ Commission Project No. 3698813.

In our view, on the basis of the information FortisBC has submitted (the Application, Exhibit B-2 and B-3) it is not possible to ascertain whether the proposed SGP is an effective or the most effective means for addressing the issue(s) or need because FortisBC has not identified a specific problem that needs to be addressed nor has it provided analysis of the relative merits of alternative solutions to the problem.

Conclusions

FortisBC says that it wants to reach a conclusion on SGP for its service area. In our view, it will not be possible to reach a conclusion on SGP for the FortisBC service area without a clear articulation of the problem(s) that need to be solved, and quantitative analysis of the costs, benefits and risks of the alternative solutions to the problem. The starting point has to be a clear understanding of what self-generators and those considering investing in self-generation in the FortisBC service area want to do and identification of the barriers to the proposed activities/investments, and only then can there be consideration of whether there is a SGP that effectively serves the need without putting undue risk on others.

Accordingly, in our view FortisBC must provide the following information before development of SGP for the FortisBC service area can proceed any further:

1. A comprehensive review of the opportunities currently available to self-generators and to those considering investing in self-generation in the FortisBC service area, including opportunities within applicable existing tariffs such as service agreements and Tariff Supplement No. 7 Transmission Access Terms and Conditions, FortisBC clean energy procurement strategies and/or programs, BC Hydro clean energy procurement programs, etc.;
2. A clear articulation of the issue(s)/problem(s) that need to be addressed and why they need to be addressed, including any barriers to incremental cost effective self-generation identified in one, above;
3. An explanation as to whether and if so why existing tariffs should be changed to enable new activities by self-generators, including analysis of any problems that might arise if FortisBC amends its industry-standard Tariff Supplement No. 7 Transmission Access Terms and Conditions in connection to enabling self-generators to make export sales supported by utility resources;
4. Review of available markets for below-load, behind-the-meter self-generation in the FortisBC service area, including forecast prices in those markets; and
5. Comprehensive review of the alternative solutions to the issue(s), including quantitative analysis of the costs, benefits and risks to the self-generator and to utility customers including BC Hydro customers for each alternative. The review could include analysis of the SSO methodology with SSOs based on 50 per cent of historical self-generation output and other percentages up to and including 100 per cent, the non-embedded cost power (**NECP**) rate rider approach previously

proposed by FortisBC, a customer specific baseline (**CSB**) approach similar to that set out in the BC Hydro RS 3808 PPA Section 2.5 Guidelines Application, and any other options.

In our view, the above information is required before development of SGP for the FortisBC service can proceed any further. FortisBC should submit the information in a comprehensive filing rather than making the Commission and interveners attempt to draw the information out through an information request process.

Commission Panel's Three Questions

The Panel requested that the parties provide their views on three specific questions, as follows.

1. Should the current proceeding proceed or be dismissed?

As discussed above, BC Hydro believes that the information outlined above is required before development of SGP for the FortisBC service area can proceed any further. BC Hydro does not take a position on whether FortisBC's Application should be held in abeyance or dismissed pending the further information from FortisBC.

2. If your view is that the proceeding should be dismissed, what issues remain that the Commission must address through some other means?

To BC Hydro's knowledge, if the FortisBC Application is dismissed there would not be any issues remaining that the Commission must address.

Although it is not an issue that must be addressed, the Commission may wish to consider the status of the BC Hydro RS 3808 PPA Section 2.5 Guidelines Application which has been held in abeyance since January 2015 pending the outcome of the subject FortisBC Application. To our knowledge no one has asked for the regulatory review of the BC Hydro application to proceed since it was suspended more than two and a half years ago. The RS 3808 PPA has been operating properly since it came into effect in July 2014, and Section 2.5 Guidelines are not needed for it to continue to operate properly.

Assuming that no one wants a regulatory review of the BC Hydro RS 3808 PPA Section 2.5 Guidelines Application to proceed, if the Commission dismisses the FortisBC Application it could also dismiss the BC Hydro application without prejudice to BC Hydro's ability to resubmit its application if necessary.

3. What approach would be most effective in addressing any issue(s) identified in response to question two?

Please refer to our response to question two, above.

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Page 6 of 6

For further information, please contact Anthea Jubb at 604-623-3545 or by email at bchydroregulatorygroup@bchydro.com..

Yours sincerely,



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