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Sent via eFile

FORTISBC INC. 2017 COST OF SERVICE ANALYSIS & RATE DESIGN	EXHIBIT A-16
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Mr. Robert Hobbs
Industrial Customers Group
rhobbs@shaw.ca

Re: FortisBC Inc. – 2017 Cost of Service Analysis and Rate Design Application – Project No. 1598939 – Information Request No. 1 to ICG

Dear Mr. Hobbs:

Further to British Columbia Utilities Commission Order G-101-18, enclosed please find British Columbia Utilities Commission Information Request No. 1 to Industrial Customers Group. In accordance with the regulatory timetable, please file your responses no later than Monday, September 10, 2018.

Sincerely,

Original signed by Ian Jarvis for:

Patrick Wruck
Commission Secretary

/jo

Attachment



FortisBC Inc.
2017 Cost of Service Analysis and Rate Design Application

INFORMATION REQUEST NO. 1 TO ICG

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A. WILL CLEVELAND TESTIMONY

**1.0 Reference: TRANSMISSION SERVICES
Exhibit C12-6, Testimony of Will Cleveland, pp. 1–2, Exhibit A
Qualifications**

Pages 1–2 of Mr. Cleveland’s testimony provide a summary of his professional background and qualifications and states: “The majority of my work has been with regulated energy systems in British Columbia.”

Mr. Cleveland provides his full curriculum vitae (CV) as Exhibit A to his testimony.

On page 2, Mr. Cleveland describes the purpose of his testimony as follows: “I will discuss FortisBC’s (FBC’s) proposed changes to their transmission access rates, characteristics and benefits of transmission harmonization and the license plate approach, and bypass rates for transmission access.”

Exhibit A provides a list of select assignments. Of the 24 assignments listed, 22 are directly related to thermal energy systems, one to a water utility and one to a run-of-river Independent Power Producer (IPP).

- 1.1 Please confirm, or explain otherwise, that the majority of Mr. Cleveland’s work with regulated energy systems in British Columbia has been in the area of thermal energy systems.
- 1.2 Please expand the list of select assignments to include experience relevant to the topics identified on page 2 (lines 9–11) of the testimony.

**2.0 Reference: TRANSMISSION SERVICES
Exhibit C12-6: Testimony of Will Cleveland, p. 3, Footnote 1; Testimony of Elroy
Switlishoff, p. 4
BC Hydro IPP within FBC**

Footnote 1 on page 3 of Mr. Cleveland’s testimony provides the following definition for “BC Hydro IPP Within FBC”:

This category includes both true IPPs (facilities built only for power generation) as well as self-generators who export power (i.e. industrial facilities with excess on-site power generation which they export). While there are some differences between these types

of generators, there is no meaningful distinction for the purposes of this discussion on exports and transmission pricing. Throughout this document I have referred to IPPs, but the term is meant to encompass other embedded exporters such as self-generators.

- 2.1 Please explain the term “embedded exporter”.
- 2.2 Please explain why a self-generator is described as an “embedded exporter”.
- 2.3 Please confirm, or explain otherwise, that Zellstoff-Celgar fits Mr. Cleveland’s description of an embedded exporter/self-generator.

Mr. Cleveland states the following on page 3 of his testimony:

To my knowledge there is at least one BC Hydro IPP Within FBC operating with a BC Hydro EPA that was executed after G-12-99. My expectation is that when originally negotiating their EPA (and in particular the power price in the EPA), a BC Hydro IPP Within FBC would have taken into account all their known and forecasted costs to deliver energy to the point of interconnection (POI) with BC Hydro, including the zero cost RS 101 transmission rate ordered in G-12-99.

- 2.4 Please confirm, or explain otherwise, that Mr. Cleveland’s statement that “at least one BC Hydro IPP Within FBC operating with a BC Hydro EPA that was executed after G-12-99” is referring to Zellstoff-Celgar.
- 2.5 Please confirm, or explain otherwise, that the BC Hydro Electricity Purchase Agreement (EPA) referenced by Mr. Cleveland is between Zellstoff-Celgar and BC Hydro and was executed on January 27, 2009 as part of the BC Hydro Bioenergy Phase I call for power.

Page 4 of Mr. Switlishoff’s testimony states: “This culminated in the addition of a second generator in September, 2010 at Zellstoff Celgar’s pulp mill in Castlegar, BC, driven by an Electricity Purchase Agreement (EPA) with BC Hydro.

- 2.6 Please clarify whether the EPA referenced by Mr. Cleveland and Mr. Switlishoff in their respective quotes is the same EPA. If not, please state the dates of the two EPAs and the context within which they were negotiated.

- 3.0 **Reference: TRANSMISSION SERVICES
Exhibit C12-6, Testimony of Will Cleveland, pp. 3–5, 12–13; Exhibit B-1: Appendix I-1 (1998 Rate Harmonization Application); Appendix I-3 (Order G-12-99); Exhibit B-8, BCUC IR 62.1, 64.2, Footnote 18
Rate harmonization**

Page 3 of Mr. Cleveland’s testimony states: “However, Order G-12-99 states clearly that transactions with delivery to a BC Hydro POI will benefit from the zero rate for transmission under RS 101, and Order G-12-99 has been applied in that way ever since it was issued.”

- 3.1 Please indicate where in Order G-12-99 or the accompanying Reasons for Decision it states that “transactions with the delivery to a BC Hydro POI will benefit from the zero rate for transmission under RS 101”.

In response to BCUC IR 64.2, FBC indicated in footnote 18 where the BC Hydro practice related to implementing Order G-12-99 can be found. This business practice is described in the Note to Table 2 on page 6 of the BC Hydro Transmission Scheduling Business Practices and reads as follows:

Note to Table 2:

BC Hydro and FortisBC have adopted (as directed pursuant to BCUC Order G-12-99) the harmonization of transmission wheeling rates. Such harmonization eliminates rate “pancaking” between the two utility service areas by using a “license plate” approach whereby a transmission service rate customer within BC is only charged for wheeling by the utility within whose service area the customer is located. A transmission customer will need to demonstrate to BC Hydro, with a BC Hydro TSR, that its POD at a FortisBC POI is associated with an equivalent PTP reservation to a FortisBC TSR POD located in FortisBC’s service territory to receive \$0 rate per BC Hydro OATT Schedule 01. Ancillary Services will be charged by each utility independently based on the reserved capacity for these reservations. [Emphasis added]

FBC also summarized BC Hydro’s bulletin regarding the above business practice: “In summary, if the delivery is simply to the FBC system, BC Hydro will charge the tariff. To receive the \$0 rate under the BC Hydro tariff, the customer must demonstrate that the POD is within the FBC system (in other words, the overall transaction is also using FBC transmission).”

3.2 In consideration of the above BC Hydro business practice, please confirm, or explain otherwise, that in the case of BC Hydro, Order G-12-99 has not been applied in the same way Mr. Cleveland describes it has been applied to FBC.

3.2.1 If confirmed, please explain the rationale for not applying Order G-12-99 consistently between BC Hydro and FBC.

The 1998 Joint BC Hydro and West Kootenay Power (WKP) Rate Harmonization application states: “the purpose and effect of the amendments is to relieve wholesale transmission customers from the requirement to pay both B.C. Hydro’s and WKP’s wholesale transmission rate by charging only the wholesale transmission rate of the utility whose service area the customer is located within”.

On pages 92–93 of the 2017 Cost of Service Analysis and Rate Design Application (Application), FBC states:

As part of the FBC process, attendees at a pre-hearing conference stated a need for the harmonization of BC Hydro and FBC transmission rates. This would prevent the stacking of transmission tariffs, which would result in customers paying the tariffs of both utilities when power was moved between the two service territories. Such stacking or “rate pancaking”, at the time, would have made wholesale transmission access uneconomic. [Emphasis added]

...

The harmonization clauses were intended to directly address the situation where wholesale or large retail load customers required the use of both transmission systems when sourcing power from a third party to serve load.

In response to BCUC IR 62.1, FBC described “rate pancaking” as follows: “Power is moved from the US or Alberta through BC Hydro to FBC and then to a wholesale or retail access customer. The customer would

pay **both** BC Hydro and FBC wheeling tariffs”. FBC further explained that this was the situation that the anti-pancaking provisions of the tariff was designed to correct.

In Footnote 18 of FBC’s response to BCUC IR 64.2, FBC provided a link to a bulletin posted by BC Hydro on October 4, 2016. The bulletin stated the following: “As approved by the BCUC, the objective of harmonization is only to relieve OATT customers from rate ‘pancaking’ of point-to-point transmission wheeling rates.”

On pages 4–5 of his testimony, Mr. Cleveland discusses the effect of FBC’s proposed changes on the competitiveness of a generator located in the BC Hydro service area versus a generator located in the FBC service area seeking to export power to BC Hydro. Also, on pages 12–13, Mr. Cleveland discusses how harmonization can address distortions in transmission pricing seeking to recover embedded costs.

- 3.3 Please confirm, or explain otherwise, that the objective of the 1998 rate harmonization proposal was limited to eliminating rate pancaking of point-to-point transmission rates. If not, please state which other objectives were addressed by the 1998 rate harmonization application, and provide documentation/references to support your statement.
- 3.4 Please confirm, or explain otherwise, that the objective of the 1998 rate harmonization proposal was not to eliminate the payment by customers of transmission tariffs altogether but only the stacking of two transmission wheeling tariffs.
- 3.5 Please confirm, or explain otherwise, that the situation contemplated by the rate harmonization proposal was that of wholesale or large retail customers sourcing power from the US or Alberta (as described under point #1 of FBC’s response to BCUC IR 62.1), rather than the situation of an IPP export where power is moved from an IPP within FBC to BC Hydro itself (as described under point #3 of FBC’s response to BCUC IR 62.1) or to outside BC (as described by Mr. Cleveland in Scenario A).
- 3.6 Please explain where and how the 1998 rate harmonization proposal dealt with issues related to the relative competitiveness of generators located in the BC Hydro versus FBC service area seeking to export power to either utility thereby affecting their decision to locate in either service area.
- 3.7 Please explain where and how the 1998 rate harmonization proposal dealt with issues related to distortions in transmission pricing.

4.0 **Reference: TRANSMISSION SERVICES
Exhibit C12-6, Testimony of Will Cleveland, p. 4
Point-to-Point Transmission Rate**

On page 4 of Mr. Cleveland’s testimony he states the following:

Exporting power to BC Hydro will now require paying FBC’s full point-to-point transmission charge. [...] The point-to-point transmission rate is purely a contribution towards sunk costs. In the absence of any generators seeking to export power (or any other wheeling transactions), all sunk transmission costs would be recovered from FBC’s loads.

- 4.1 Please explain why, if there are any such generators, it is not appropriate for these generators to pay for their use of the FBC transmission system to export power as opposed to recovering these costs from FBC’s existing ratepayers.

5.0 **Reference: TRANSMISSION SERVICES**
Exhibit C12-6, Testimony of Will Cleveland, p. 6
Transmission losses

Page 6 of Mr. Cleveland's testimony states the following:

For an exporter selling to BC Hydro, my expectation is that the pricing they receive from BC Hydro at the POI would reflect the value BC Hydro places on the energy at the POI, including losses incurred in moving the energy to the load centre. (Emphasis added)

5.1 Please provide documentation/references supporting Mr. Cleveland's expectation regarding how the pricing should be applied by BC Hydro.

6.0 **Reference: TRANSMISSION SERVICES**
Exhibit C12-6, Testimony of Will Cleveland, pp. 7–11; Exhibit B-1, Appendix I-1
Discriminatory tariffs

On pages 8–10 of Mr. Cleveland's testimony, three scenarios are provided.

Scenario A is described on page 7 as follows:

...a generator within FBC's service territory is exporting power in a way that requires a point-to-point transmission service reservation on the BC Hydro system – for example, it is wheeling power from FBC's service territory, through BC Hydro service territory to the BC-US border where it will be transmitted to a load in the US. FBC's position is that in Scenario A, the zero Monthly Rate under FBC's RS 101 (as ordered in G-12-99) does apply and would continue to apply. The transaction would also attract "typical" transmission charges from BC Hydro – not the zero rate.

6.1 Please clarify what "typical" transmission charges are being referred to in the above preamble. Please specifically reference BC Hydro's tariff wording as part of this response.

6.2 Please confirm, or explain otherwise, that under Scenario A, the generator will be required to pay Point-to-Point charges to BC Hydro.

6.2.1 If confirmed, please explain whether Mr. Cleveland considers it appropriate for the generator to pay Point-to-Point charges to BC Hydro.

Scenario B (Current Treatment) is described on pages 9–10 of Mr. Cleveland's testimony as follows:

Scenario B (Current Treatment) depicts the status-quo treatment of a slightly different transaction. A generator within FBC's service territory is exporting power in a way that does not require an explicit point-to-point transmission service reservation on the BC Hydro system. It is selling power to BC Hydro for BC Hydro's use to serve load. The current treatment of this transaction is that it receives the zero rate under RS 101 for point-to-point transmission access within the FBC system to reach its POI with BC Hydro ("Current Treatment"). (Emphasis added)

6.3 In the above Scenario B (Current Treatment), please confirm, or explain otherwise, that neither FBC nor BC Hydro charges the point-to-point transmission tariff for moving power from the IPP within FBC to BC Hydro.

On page 6 of Mr. Cleveland's testimony, he references the Federal Energy Regulatory Commission (FERC) Order 888.

- 6.4 Please explain which section of the pro-forma Open Access Transmission Tariff (Appendix D of FERC Order 888) provides that a customer using transmission service from a utility must not pay for those transmission services, as described in Scenario B (Current Treatment).

Appendix I-1 of the Application provides the 1998 Joint BC Hydro WKP Rate Harmonization Application. Appendix C of the 1998 Rate Harmonization Application provides the changes to Power Purchase Agreements of BC Hydro and WKP:

B.C. Hydro Purchases from WKP

For the purposes of this clause, and this clause only, capitalized items shall have the same meaning as contained in West Kootenay Power's Tariff Supplement No. 7 Terms and Conditions applicable to wholesale transmission access.

When the West Kootenay Power Transmission System is used by B.C. Hydro or an agent to transmit power purchased from any person other than West Kootenay Power to serve B.C. Hydro's Native Load Customers at a point of interconnection, B.C. Hydro shall pay to West Kootenay Power an amount equal to the Hourly Price for Reserved Capacity which would have been payable for transmission of that energy under Rate Schedule 101 for Wholesale Service - Primary, times the amount of energy delivered.

- 6.5 Please explain to what extent Scenario B (Current Treatment) complies or does not comply with the above quote from Appendix C of the 1998 Rate Harmonization Application.

Page 11 of Mr. Cleveland's testimony states the following:

Under FBC's Proposed Changes, even if the Scenario A generator and the Scenario B generator had identical capacity and output, and both generators imposed no incremental costs on the transmission system (i.e. required no transmission upgrades to manage their generation), the two generators would face different rates for the use of FBC's transmission system.

As noted above, setting different rates for different customers or types of customers is generally required to follow principles such as cost causation. Given that FBC's proposal makes a distinction between the Scenario A and Scenario B exporters based only on the party the exporter is selling energy to, and in both cases the transaction flows from FBC's service area to BC Hydro's service area (the precise situation addressed by G-12-99), it is difficult to see what principle could justify FBC charging different transmission rates to these two exporters.

- 6.6 Please confirm, or explain otherwise, that under Scenario A, the generator would face different rates from BC Hydro than it would under Scenario B (i.e. BC Hydro's PtP Tariff under Scenario A compared to BC Hydro's Internal Cost Transfer for Network Service under Scenario B).
- 6.6.1 If confirmed, please explain Mr. Cleveland's understanding of why BC Hydro applies different treatment to generators under Scenario A versus Scenario B.
- 6.7 Please explain why a principle other than the elimination of rate pancaking is needed to justify the Proposed Changes.
- 6.8 Please reconcile Mr. Cleveland's statement that transaction flows from FBC's service area to BC Hydro's service area was "the precise situation addressed by G-12-99" with FBC's statement on page 93 of the Application that "it is clear from that 1998 harmonization application that a

situation whereby BC Hydro would be purchasing power to serve its native load from within the FBC service territory was not addressed”.

Page 11 of Mr. Cleveland’s testimony states the following:

While the above discussion uses the specific examples of generators within FBC’s service territory exporting power out of FBC’s service territory, the same discussion could equally be stated for the reverse scenario, where generators within BC Hydro’s service territory export power to FBC’s territory (whether for use by FBC or third parties).

6.9 Please confirm, or explain otherwise, that Scenario B (Proposed Changes) also depicts how BC Hydro has implemented Order G-12-99 through its business practice, as described in the Note to Table 2 on page 6 of the BC Hydro Transmission Scheduling Business Practices.¹

6.9.1 If confirmed, please clarify whether Mr. Cleveland is suggesting that BC Hydro’s business practice is discriminatory and should be changed to reflect Mr. Cleveland’s Scenario B (Current Treatment). If not, please clarify what is meant by “the same discussion could equally be stated for the reverse scenario, where generators within BC Hydro’s service territory export power to FBC’s territory (whether for use by FBC or third parties)”.

7.0 **Reference: TRANSMISSION SERVICES
Exhibit C12-6, Testimony of Will Cleveland, pp. 13–16; Exhibit B-1, p. 93; Exhibit B-8,
BCUC IR 63.2
License plate approach**

Page 13 of Mr. Cleveland’s testimony states the following:

Leaving aside the issue of what FBC and BC Hydro intended at the time of the 1998 harmonization application¹⁷, the license plate approach has certainly been applied elsewhere to give utilities lower-cost access to energy produced within other transmission owners’ service areas. For example, [...]

Footnote 17: This application ultimately led to Order G-12-99.

On page 93 of the Application, FBC states: “The harmonization clauses were intended to directly address the situation where wholesale or large retail load customers required the use of both transmission systems when sourcing power from a third party to serve load.”

7.1 In consideration of FBC’s statements on page 93 of the Application (as provided in the above preamble), please explain the rationale for “leaving aside” these statements in Mr. Cleveland’s discussion on pages 13–16 of the intent of harmonization and whether FBC’s statements regarding intent impact the applicability of Mr. Cleveland’s discussion on pages 13–16 of his testimony.

On page 14 of Mr. Cleveland’s testimony, he provides the following summary from a FERC opinion regarding transmission cost allocation:

When the PJM power pool was restructured as an ISO in 1997, the Commission approved a rate proposal for non-pancaked charges for firm transmission in PJM, with a

¹ https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/suppliers/transmission-scheduling/business_practices/2016%20October%20-%20Posting%20of%20Transmission%20Service.pdf

rate which varied based on the zone in which the subject load was located. [...] A customer's rate is based on the embedded costs of transmission facilities that are located within its zone. [...] This zonal or license plate rate design helped to reduce the multiple transmission charges that had previously applied when a utility purchased electric energy from remote resources. (Emphasis added)

Mr. Cleveland then states the following on page 14 of his testimony:

Existing transmission assets had been constructed to serve loads within the boundaries of each transmission owner's network, and each transmission owner's sunk costs would continue to be recovered from loads within their boundaries. All customers would have access to the integrated transmission system without having to make additional payments for transmission service. (Emphasis added)

- 7.2 In light of the above summary which explains that FERC approved a rate for firm transmission in PJM where a customer's rate is based on the embedded costs of transmission facilities that are located within its zone, please clarify the statement that "each transmission owner's sunk costs would continue to be recovered from loads".
- 7.3 Please confirm, or explain otherwise, that a rate design which helps to reduce the multiple transmission charges is not the same as a rate design which eliminates the need to pay for transmission charges.

Page 15 of Mr. Cleveland's testimony states the following:

While transmission owners would not be able to seek incremental revenues from new generators which choose to locate within their systems and export to other zones within PJM, under the license plate approach there would be no reduction in revenues received by each transmission owner, as they would continue to recover all sunk transmission costs from their loads. This is a basic feature of the license plate approach to harmonization.

In response to BCUC IR 63.2, FBC defined the term "license plate approach" as follows:

A license plate rate provides access to the regional transmission system at a single rate although that rate may vary based on where the customer is located. As further explained in a footnote, "Consider that registering a car in one state, paying that state's fees, and obtaining a license plate from that state, allows that car to be driven on the roads and highways of all other states.

- 7.4 Please confirm, or explain otherwise, that Mr. Cleveland's interpretation of license plate approach does not agree with FBC's definition.

B. ELROY SWITLISHOFF TESTIMONY

- 8.0 **Reference: TRANSMISSION SERVICES**
Exhibit C12-6, Testimony of Elroy Switlischoff: p. 3; Exhibit B, June 30, 2006 letter; Exhibit C, Transmission Access Agreement; Exhibit D, Service Agreement for Long-Term Point-To-Point Transmission Service Agreements with FBC

On page 3 of Mr. Switlischoff's testimony, he refers to a June 30, 2006 letter from FBC (Letter), provided as Exhibit B to his testimony, and states: "The Letter enabled exports via FBC's transmission system for the period from July 1, 2006 to October 31, 2006."

- 8.1 Please confirm, or explain otherwise, that based on the wording in the Letter, the terms of the Letter were only applicable until October 31, 2006.
- 8.1.1 If confirmed, please confirm, or explain otherwise, that the Letter does not reflect a current agreement between Zellstoff-Celgar and FBC.

As part of Mr. Switlischoff's testimony, he provides the Transmission Access Agreement (TAA) between FBC and Zellstoff-Celgar Limited Partnership as Exhibit C and the Service Agreement for Long-Term Point-To-Point Transmission Service (Long-Term Service Agreement) as Exhibit D.

On page 4 of Mr. Switlischoff's testimony he states the following:

Working from the principles established in Order G-12-99 and incorporated into the TAA, FBC and Zellstoff Celgar executed on September 23, 2010 a Service Agreement for Long-Term Firm Point-to-Point Transmission Service in order to transmit electricity to BC Hydro. BC Hydro was named specifically as the receiving party. At no time did FBC suggest the cost of wheeling under Rate Schedule 101 would be anything other than the \$0.00 charge as previously agreed in the TAA.

- 8.2 Please confirm, or explain otherwise, that the Long-Term Service Agreement (provided as Exhibit D) does not refer to a \$0.00 charge for wheeling under RS 101.
- 8.3 Please clarify if the Long-Term Service Agreement was limited to 12 months, as described in section 7.0 of the Long-Term Service Agreement.
- 8.3.1 As part of the above response, please clarify if the Long-Term Service Agreement is the current agreement between FBC and Zellstoff-Celgar.
- 9.0 **Reference: TRANSMISSION SERVICES**
Exhibit C12-6, Testimony of Elroy Switlischoff, p. 7; Exhibit B-1, Appendix I-1, 1998 Joint BC Hydro WKP Harmonization Application RS 101 harmonization provisions

On page 7 of Mr. Switlischoff's testimony he states the following:

As described earlier, the harmonization provisions in Rate Schedule 101 that gave rise to the interpretation that the cost of Rate Schedule 101 would be \$0.00 if electricity generated within FBC's service territory was delivered to a point of interconnection between FBC and BC Hydro for use by BC Hydro were relied upon for the BC Hydro EPA.

B.C. Hydro Purchases from WKP

For the purposes of this clause, and this clause only, capitalized items shall have the same meaning as contained in West Kootenay Power's Tariff Supplement No. 7 Terms and Conditions applicable to wholesale transmission access.

When the West Kootenay Power Transmission System is used by B.C. Hydro or an agent to transmit power purchased from any person other than West Kootenay Power to serve B.C. Hydro's Native Load Customers at a point of interconnection, B.C. Hydro shall pay to West Kootenay Power an amount equal to the Hourly Price for Reserved Capacity which would have been payable for transmission of that energy under Rate Schedule 101 for Wholesale Service - Primary, times the amount of energy delivered.

- 9.1 Please clarify Mr. Switlshoff's statement on page 7 of his testimony (as provided in the above preamble) in the context of the second quote above from Appendix I-1 of the Application.