

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

INFORMATION REQUEST NO. 1 TO ICG

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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed that the majority of my work with regulated energy systems in British Columbia has been in the area of thermal energy systems. I do not have any prior assignments specifically addressing electricity transmission access rates, electricity transmission harmonization and the license plate approach, or bypass rates for transmission access.

That said, my work has involved considerable interaction with regulated gas and electricity services. I worked for an Independent Power Producer for whom the electricity market was a major consideration in project development. Many of my thermal energy projects have involved evaluation of cogeneration opportunities (e.g., Creative Energy Fuel Switch, University of British Columbia, River District, City of Surrey, and Lower Mainland Consolidated Health Authorities). I have also had to follow electricity markets and pricing closely as electricity is both a major input and common cost benchmark for almost all of the low-carbon thermal energy systems I have advised. And I have worked on rate design issues that are common to all regulated utilities.

I do have one additional assignment related to the electricity sector which was not included on Exhibit A to my prepared testimony. I am currently supporting a local government in negotiations with an electric utility regarding infrastructure that would impact annual power generation. The project involves negotiating appropriate compensation for long-term impacts on power generation. I can provide information on this project to the Commission if requested.

- 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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Please see the response to BCUC ICG IR 1.1.1.

- 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”.

RESPONSE:

The following response was provided by Mr. Cleveland.

I used this term in my testimony to encompass all generators who require access to the transmission system. This includes IPPs, as well as self-generators with excess power that they export. For clarity, this was not intended to refer to or draw a comparison to “embedded generation” which is often used to describe generators connected to the distribution system.

- 2.2 Please explain why a self-generator is described as an “embedded exporter”.

RESPONSE:

The following response was provided by Mr. Cleveland.

Please see the response to BCUC ICG IR 1.2.1.

- 2.3 Please confirm, or explain otherwise, that Zellstoff-Celgar fits Mr. Cleveland’s description of an embedded exporter/self-generator.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed.

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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed.

- 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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed.

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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed.

- 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”.

RESPONSE:

The following response was provided by Mr. Cleveland.

In Order G-12-99, Order #1 states: “The Commission approves the joint B.C. Hydro/[FBC] rate harmonization proposal subject to review after two years, effective immediately. Reasons for Decision are attached as Appendix A to this Order.”¹

The joint BC Hydro/FBC rate harmonization proposal requested that the tariff for FBC’s RS 101 service would be changed to read in part: “The Monthly Rate will be zero (\$0.00) where the POD is a point of interconnection between the Transmission System and the transmission system of B.C. Hydro and Power Authority.”² In my view, Order #1 of G-12-99 states that these changes to the tariff will be implemented.

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.

RESPONSE:

The following response was provided by Mr. Cleveland.

¹ Order G-12-99, p. 2, Order 1.

² 2017 Cost of Service Analysis and Rate Design Application, Exhibit B-26, Attachment 15.2, Letter 1 (Application dated 5 October 1998), Appendix B, section labeled “Annual Rate for Long-Term Firm Service”.

Confirmed.

In my view there is no rationale for not applying Order G-12-99 consistently between BC Hydro and FBC. As far as I can tell, BC Hydro made this change to its business practice without consulting the Commission. I have no opinion on whether BC Hydro erred in making that change without seeking Commission approval. However the license plate approach is ultimately applied, it should in my view be applied equally to the two participating utilities.

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

RESPONSE:

The following response was provided by Mr. Cleveland.

Please see the response to BCUC ICG IR 1.3.2.

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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed that the original application stated: “The purpose and effect of the amendments is to relieve wholesale transmission customers from the requirement to pay both B.C. Hydro’s and [FBC’s] wholesale transmission rate by charging only the wholesale transmission rate of the utility whose service area the customer is located within.”

That said, I have no insight into whether the applicants and the Commission specifically intended a narrow application and Order which would exclude certain uses of both utilities’ transmission systems, such as procurement to serve native load. As described in the response to BCUC ICG IR 1.6.8, the utilities’ requested tariff change did not include a carve-out or other exclusion for procurement to serve native load. For any policy change, it may not be possible to consider in advance every possible configuration of transactions and uses of the transmission system. In my own view it is instructive to consider the overall framework and structure of the license plate approach to harmonization.

- 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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed that my understanding is that the 1998 rate harmonization proposal was not intended to eliminate all contributions by end-use customers towards the cost of the combined BC Hydro-FBC transmission system. However in my view the license plate approach, as applied to embedded transmission system costs within PJM³ and as currently applied by FBC⁴, does result in end-use customers contributing towards the cost of the combined BC Hydro-FBC transmission system. Please see the response to BCUC ICG IR 1.7.2.

- 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

³ Specifically, it is applied to transmission system costs incurred before the restructuring of PJM as an Independent System Operator in 1997. See Exhibit C12-6, Prepared Testimony of Will Cleveland, pp 13-17.

⁴ See Exhibit C12-6, Prepared Testimony of Will Cleveland, p. 9, diagram labeled “Scenario B (Current Treatment): Export from Embedded Generator to BC Hydro”.

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).

RESPONSE:

The following response was provided by Mr. Cleveland.

Not confirmed. Some of the discussion in the proposal did focus on wholesale or large retail customers sourcing power from sources other than the utility which serves them. For example, the application letter states:

“Because the net flow between the two service areas is likely to be into WKP's service area, the effect of the harmonization arrangements will be to reduce the responsibility of WKP customers who purchase energy from sources other than WKP, for the embedded costs of the B.C. Hydro transmission system.”⁵

This statement contemplates wholesale customers or large customers with retail access sourcing energy from alternative sources. There is no reference to the location of those sources.

However, other documentation provided by the applicants as part of the proceeding specifically contemplates other types of uses. For example, the BCUC's single set of information requests included a question on the revenue impacts of the proposed approach to harmonization. In response, the applicants discussed the impact of FBC's wholesale customers procuring energy from other sources, and also discussed the impact of exports by generators located within FBC's service area. The applicants wrote:

“Since [FBC] does not have a power sales contract with B.C. Hydro that could be displaced when B.C. Hydro's wholesale customers purchase energy from a supplier other than B.C. Hydro, an energy flow from WKP to B.C. Hydro would not reduce [FBC's] transmission revenues. Presently [FBC's] transmission revenue requirement is allocated to [FBC's] loads and this would continue even if an outflow of energy from [FBC] occurred. For example, a generator locating in [FBC's] service area and exporting its energy thereby creating net outflow from [FBC] would not reduce the revenues collected from loads within [FBC's] service area or affect [FBC's] WTS rates.”⁶

In my view this indicates that the applicants contemplated generators locating in FBC's service area and exporting energy. Given the symmetrical nature of the license plate arrangement, it is reasonable in my view to assume that the applicants at least considered the inverse arrangement, with generators located in BC Hydro's service area exporting energy to loads in FBC's service area, though I have not found mention of this specific example on the record from the 1998 rate harmonization proceeding.

I have no insight into whether the applicants contemplated exports to retail access customers within BC vs export to loads outside BC, or export from generators in one utility's service area to serve native load in the other utility's service area.

⁵ 2017 Cost of Service Analysis and Rate Design Application, Exhibit B-26, Attachment 15.2, Letter 1 (Application dated 5 October 1998), p. 2.

⁶ 2017 Cost of Service Analysis and Rate Design Application, Exhibit B-26, Attachment 15.2, Letter 6 (IR response dated January 6, 1999), p 4.

- 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.

RESPONSE:

The following response was provided by Mr. Cleveland.

The record from the 1998 rate harmonization proceeding did not deal explicitly with the relative competitiveness of generators located in either utility's service area, though it did discuss the impact of energy exports by generators located in FBC's service area⁷. It also did not explicitly address distortions in transmission pricing. In fact, the original proceeding never explained why the utilities believed there was a need for transmission harmonization at all.

However, the order from the 1998 rate harmonization proceeding does state that the proceeding was initiated because of a perceived need for harmonization of transmission rates⁸. The term "harmonization" has an established meaning and is part of a wider discussion in the utility sector about appropriate approaches to pricing transmission service. Considerations include location signaling, price distortions, and how to foster more efficient trade in electricity. I have provided evidence on these issues because they provide context for any discussion of harmonization and the license plate approach.

- 3.7 Please explain where and how the 1998 rate harmonization proposal dealt with issues related to distortions in transmission pricing.

RESPONSE:

The following response was provided by Mr. Cleveland.

Please see the response to BCUC ICG IR 1.3.6.

- 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.

⁷ See the response to BCUC ICG IR 1.3.5.

⁸ Order G-12-99, S. A.

RESPONSE:

The following response was provided by Mr. Cleveland.

The quoted section of my testimony does not state that it is not appropriate for the generators in question to pay for their use of the FBC transmission system to export power as opposed to recovering these costs from FBC's existing ratepayers. The quoted section of my testimony was identifying consequences of FBC's Proposed Changes.

I will also note that in my view it is not useful to characterize the issue as whether "generators pay". End-use customers are the ultimate source of revenues to pay for generation and it is end-use customers that receive the benefits of transmission harmonization. The license plate approach to transmission harmonization, which has been adopted for BC Hydro and FBC's transmission systems via Order G-12-99, already provides zero-cost access to the FBC transmission system under certain conditions. FBC's Proposed Changes would change the conditions under which certain transactions would receive zero-cost access to the FBC transmission system, but would not eliminate that zero-cost access. In my view FBC's Proposed Changes are not a consistent application of the license plate approach and are not in line with how the license plate approach has been applied in other jurisdictions. Please see the response to BCUC ICG IC 1.7.2.

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

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.

RESPONSE:

The following response was provided by Mr. Cleveland.

My expectation is based on BC Hydro's 2013 Resource Options Report Update. The report "presents an assessment of the potential resource options available to meet the needs of BC Hydro's electricity customers"⁹. The report illustrates the methodology used by BC Hydro to evaluate resource options. It provides supply curves, as well as a summary table showing the costs for various supply-side options. All supply-side costs are "adjusted to reflect the cost of resources delivered to the Lower Mainland"¹⁰, i.e. to account for losses for delivered to the load centre. Given that this is the methodology BC Hydro uses to evaluate resource options, it is my expectation that BC Hydro would take the impact of losses from the POI to the load centre into account when negotiating the price paid for delivered energy at the POI.

⁹ BC Hydro Integrated Resource Plan, Appendix 3A-1, 2013 Resource Options Report Update, p. 14, lines 2-4.

¹⁰ Ibid, p. 24, lines 1-2.

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.

RESPONSE:

The following response was provided by Mr. Cleveland.

The preamble refers to BC Hydro’s OATT Schedule 01 – Point-to-Point Transmission Service, Rate for Long-Term Firm Service. The rate for Long-Term Firm Point-to-Point Transmission Service is provided below. It is defined as being set at some level up to a maximum price, except under certain conditions where the zero rate applies. By the term “typical” transmission charges, I refer to the rate that applies when the zero rate does not apply. The typical charges do not have a defined value, as a unique value is set for each point-to-point transaction, but it is up to a maximum of \$70,555/MW of reserved capacity per year. The tariff states:

“The Reserved Capacity Charge for the Long-Term Firm Service Rate will be up to a maximum price as set out below except where the POD is a point of interconnection between the Transmission System and the transmission system of FortisBC Inc., in which case the rate shall be zero (\$0.00).

The Maximum Reserved Capacity Charge is \$70,555/MW of reserved capacity per year to be invoiced monthly.”¹¹

- 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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed that the transaction will attract typical (as defined in the response to BCUC ICG IR 1.6.1) point-to-point charges to BC Hydro. Whether these charges are paid by the generator or

¹¹ BC Hydro OATT Schedule 01. Effective April 1, 2018. Thirteenth Revision of Page 1. Accessed at: <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/tariff-filings/open-access-transmission-tariff/schedule-01-oatt.pdf>

the end-use customer procuring the energy is a separate issue and in my view is not relevant. Ultimately all revenues to pay for the energy procured through this transaction come from the end-use customer that consumes the energy.

- 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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed that, given the existing license plate approach to harmonization established under Order G-12-99, I consider it appropriate for this transaction to attract BC Hydro's typical (as defined in the response to BCUC ICG IR 1.6.1) point-to-point transmission charges.

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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed.

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).

RESPONSE:

The following response was provided by Mr. Cleveland.

No part of the OATT (Appendix D of FERC Order 888) provides that a transmission customer using transmission service from a utility must not pay for those transmission services. I note that transmission customers using transmission services from a utility and not paying for those transmission services is not only a feature of Scenario B (Current Treatment). It is also a feature

of Scenario A: Export from Embedded Generator to USA (No Change Proposed)¹². This is because allowing transmission customers under certain conditions to use a utility's transmission service without paying for that transmission service is the key element of the license plate approach to harmonization. This was specifically contemplated in the original 1998 rate harmonization application, which stated:

"The Commission should note that while the proposed arrangements are neutral as between B.C. Hydro and [FBC], they are likely not neutral as between their respective ratepayers. Because the net flow between the two service areas is likely to be into [FBC's] service area, the effect of the harmonization arrangements will be to reduce the responsibility of [FBC] customers who purchase energy from sources other than [FBC], for the embedded costs of the B.C. Hydro transmission system."¹³

My interpretation of this application was that the utilities expected that existing FBC wholesale or retail access customers might procure energy from generators located within BC Hydro's service area. The end result would be that energy sold by BC Hydro to FBC to serve FBC's native load (which was sold at a rate that included a contribution to BC Hydro's embedded transmission system costs) would be replaced by energy procured from other generators not located in FBC's service territory in a way that requires the use of BC Hydro's transmission system. The harmonization approach would mean that any such procurement transactions by FBC customers with retail access would receive the zero rate for the use of BC Hydro's transmission system, reducing the overall contribution towards the embedded costs of the BC Hydro transmission system by end-use customers located within the FBC service area.

If it is in the public interest for all transmission system users to pay for the transmission services they receive from any and all utilities under all circumstances, then in my view accepting FBC's proposed changes is not the appropriate remedy, because FBC's proposed changes would continue to allow some transmission system users to receive transmission services from a utility and not pay for those transmission services. A more appropriate remedy would be for the Commission to cancel order G-12-99 and reinstate pancaked transmission charges.

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.

¹² Exhibit C12-6, Prepared Testimony of Will Cleveland, p. 8.

¹³ 2017 Cost of Service Analysis and Rate Design Application, Exhibit B-26, Attachment 15.2, letter dated 5 October 1998, p. 2.

- 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.

RESPONSE:

The following response was provided by Mr. Cleveland.

In my view, the language in Appendix C from the 1998 rate harmonization application is ambiguous. It may have been intended to apply to BC Hydro's use of the FBC transmission system to serve BC Hydro end-use customers via the Lardeau and Yahk points of interconnection. The text describes a payment equal to the amount "which would have been payable for transmission of that energy under Rate Schedule 101 ..." Both the typical charges (as defined in the response to BCUC ICG IR 1.6.1) and the zero rate are part of RS 101, and the quoted text does not clarify what is meant by "would have been payable." For this reason it is difficult to definitively say what the intended application was of the quoted section of Appendix C to the original application, and whether Scenario B (Current Treatment) is or is not compliant with the text.

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).

RESPONSE:

The following response was provided by Mr. Cleveland.

Not confirmed. Under Scenario A (as well as under Scenario C, described in the response to BCUC ICG IR 1.7.2), the transaction includes the use of BC Hydro's point-to-point transmission tariff, and under that tariff it would attract the typical charges (as described in the response to BCUC ICG IR 1.6.1). Under Scenario B (Current Treatment), the transaction does not face an unbundled rate for the use of BC Hydro's transmission system, so it is not accurate to state that "the generator would face different rates from BC Hydro than it would under Scenario B". Also in my view it is not helpful to think of these rates as being faced by the generator. The transaction attracts the rate, and ultimately all revenues come from end-use customers.

As described in the response to BCUC ICG IR 1.7.2, the full flow of energy from generator to end-

use customer still results in a contribution to the cost of the transmission system, because BC Hydro's native load customers pay bundled rates that include the cost of BC Hydro's transmission system.

- 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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Please see the response to BCUC ICG IR 1.6.6.

- 6.7 Please explain why a principle other than the elimination of rate pancaking is needed to justify the Proposed Changes.

RESPONSE:

The following response was provided by Mr. Cleveland.

The intent of the adoption of the license plate approach was to eliminate pancaking transmission charges. I do not see how the Proposed Changes would eliminate pancaking transmission charges. As described in the response to BCUC ICG IR 1.7.2, the Proposed Changes would require certain end-use customers (specifically, those end-use customers who are native load customers of either BC Hydro or FBC) to pay the full cost of both utilities' transmission systems for any energy they receive which is procured from a generator located within the other utility's service area. Other end-use customers, such as municipal utilities or large customers with retail access, would continue to be able to access generation from within either utility's service area and only pay transmission system charges for the utility the customer is embedded within. For this reason the Proposed Changes would result in transmission rate pancaking for certain customers.

- 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".

RESPONSE:

The following response was provided by Mr. Cleveland.

My statement regarding transaction flows from FBC's service area to BC Hydro's service area was intended to capture flows in both directions. In my view G-12-99 specifically addressed transmission flows from one utility to the other utility. This view is based on the application (which asked for modifications to each utility's tariffs so that the zero rate would apply for any use of the transmission system that delivered energy to a POI with the other utility), and the Order, which approved the application. The utilities asked to change their tariffs so the zero rate would apply for transmission users delivering energy to the other utility, and that request was granted. The utilities' requested tariff language did not have a "carve out" or other exclusion for either utility purchasing energy from generators within the other utility's service area.

I agree with FBC's statement, quoted in the preamble, that the utilities' application did not specifically discuss a situation whereby BC Hydro would be purchasing power to serve its native load from within the FBC service territory. However, I will note that, as discussed in the response to BCUC ICG IR 1.3.5, as part of the 1998 rate harmonization proceeding (not the application) the applicants provided an IR response which contemplated export by generators located within FBC's service area. The IR response did not specify the customer for the exported energy. Moreover, I would not expect the original application to have contemplated all possible future scenarios. In my view it is appropriate to consider the underlying public interest implications of the proposed changes, and whether they align with the license plate approach.

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.¹⁴

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed that this is my understanding of BC Hydro's current business practice. I do not know when BC Hydro made this change to its business practice.

- 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)".

RESPONSE:

The following response was provided by Mr. Cleveland.

My written testimony states that "In the Proposed Changes, FBC has requested different rate treatment for exporters to the BC Hydro system based on a distinction that is not clearly supported by any principle." While BC Hydro's business practice is not the subject of this proceeding, it has a similar impact as FBC's Proposed Changes: it applies different rate treatment for exporters to the FBC system based on a distinction that is not clearly supported by any principle.

¹⁴ https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/suppliers/transmission-scheduling/business_practices/2016%20October%20-%20Posting%20of%20Transmission%20Service.pdf

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.

RESPONSE:

The following response was provided by Mr. Cleveland.

In preparing my testimony I sought to provide information on the license plate approach and how it has been applied in other jurisdictions. In my view this information is relevant to the current proceeding.

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 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”.

RESPONSE:

The following response was provided by Mr. Cleveland.

As part of my responses to this and other IRs, I have tried to avoid a confusion of terminology that has arisen at points in this proceeding. The term “customer” is typically used to describe consumers of energy (loads). However in some contexts the term “customer” is used to describe any entity purchasing a service from a utility; in this case a generator purchasing firm transmission service might be described as a “customer”, which is in my view confusing. For that reason I have limited my use of the term “customer” to consumers of energy, or loads, and have also used the term “end-use customer”.¹⁵ I have referred to other users of the transmission system as “transmission users” or “transmission customers”. The discussion around harmonization and the license plate approach has tended to focus on entities such as IPPs that may purchase point-to-point transmission service. However, the overall flow of energy is from generator to end-use customer, and a discussion of whether and how different types of transactions result in contributions to transmission system costs should reflect all of the transactions and rates involved in conveying energy from generator through one or more transmission systems to the end-use customer.

Regarding the quoted sections of the FERC opinion and my testimony, my interpretation is as follows:

When PJM was established as an Independent System Operator (ISO), the entities that made up PJM assessed how end-use customers had historically been charged for transmission services within the various sub-areas of PJM. Some sub-areas had a single transmission provider and rates paid by end-use customers in that sub-area reflected the costs of that single transmission provider; in other areas, multiple transmission system owners had already been grouped together, and rates paid by end-use customers in those sub-areas reflected the combined costs of those transmission owners. Within each of these sub-areas or zones of the new PJM ISO, end-use customers had been paying the sunk or embedded costs of the transmission system within that sub-area or zone. PJM, in adopting the license plate approach, determined that end-use customers within each zone would continue to pay these same charges they had traditionally paid. This is what I meant by my statement that “each transmission owner’s sunk costs would continue to be recovered from loads.”

The quoted FERC opinion states:

“Under this rate design, customers thus are charged based on the facilities they have traditionally used, although all transmission facilities are ultimately shared so that any customer can source energy from anywhere within PJM. 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 sources.”¹⁶

¹⁵ From the standpoint of a utility, the term “customer” arguably also includes wholesale customers which are themselves local distribution companies serving their own end-use customers – an added layer of complexity. Nevertheless from the standpoint of a large utility with a transmission system, a wholesale customer is still a customer in the sense of being a load that must be served with energy.

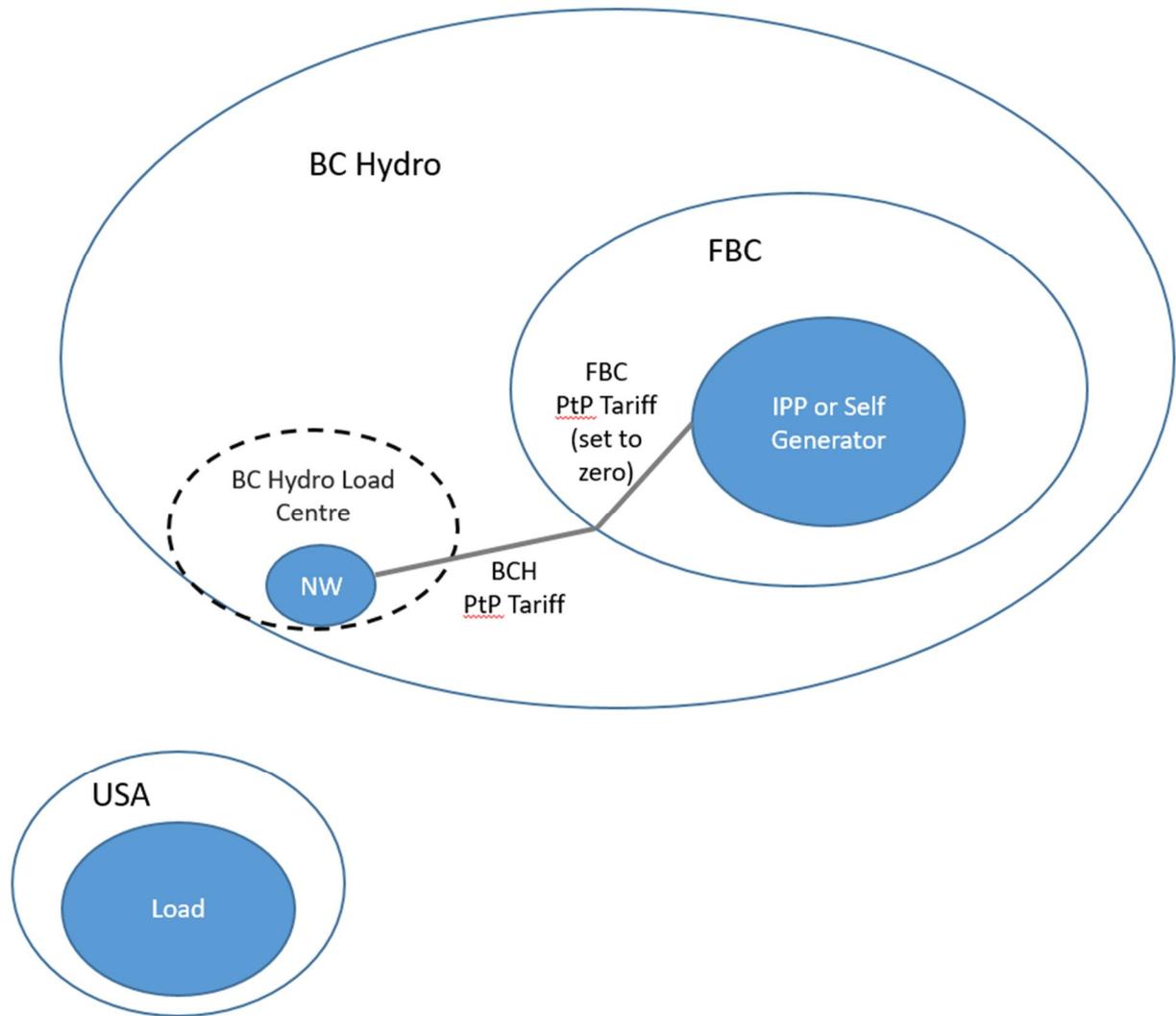
¹⁶ FERC Opinion No. 494, previously quoted in Exhibit C12-6.

In my view the key concept is that end-use customers pay for the transmission system in their zone (which is assumed to have been constructed largely to serve the needs of the loads located in that zone). They may not pay for it through an unbundled transmission tariff, because they may pay through the allocation of transmission costs included in their utility's retail, commercial, and industrial tariffs, but they are nonetheless paying for the transmission system located in their zone. Under the license plate approach, that gives these customers access to the entire transmission system within the PJM ISO at no additional cost¹⁷. It is possible that end-use customers do not procure this energy directly; the quote specifically gives the example of utilities purchasing electric energy from remote sources, which implies a utility procuring energy to serve native load. When a utility procures energy from other parts of PJM to serve native load, the energy procurement transaction does not result in an unbundled transaction for the use of the utility's own transmission system. Nevertheless, the overall flow of energy (from generator, to transmission system, to end-use customer) still results in end-use customers paying for the use of the transmission system in their zone, through their bundled rates.

In the context of British Columbia, I believe the following additional example is illustrative. Scenario C: Export from Embedded Generator to New Westminster depicts a generator within FBC's service territory exporting energy to the New Westminster electric utility¹⁸. Under order G-12-99, this transaction would attract the zero rate for the use of the FBC transmission system, and the typical rate (as defined in the response to BCUC ICG IR 1.6.1) for the use of the BC Hydro transmission system. This aligns with the description of the license plate approach provided in the quoted FERC opinion: New Westminster pays for the cost of the transmission system within its "zone" (BC Hydro's transmission system). Having made this contribution towards the embedded cost of the BC Hydro transmission system, New Westminster gets access at no additional cost to the transmission system of FBC – the other transmission system included within the harmonization area. My interpretation is that FBC's proposed changes in the current application would not impact this scenario.

¹⁷ For clarity, this discussion refers only to cost allocations for historical transmission system assets which predated the restructuring of PJM as an ISO. New transmission system assets are often constructed to benefit multiple zones within an ISO, and the allocation of costs associated with those new assets is a separate issue. See footnote 19 on p. 14 of my prepared testimony. In my view, the issues under discussion in the current proceeding are related to recovery of sunk transmission system costs, not the allocation of costs associated with new transmission assets which may provide benefits to both BC Hydro and FBC.

¹⁸ As an electric utility, New Westminster is an Eligible Customer under BC Hydro's OATT, S. 1.12, definition of Eligible Customer: "(i) Any electric utility ... is an Eligible Customer under the Tariff."



Compare this with Scenario B (Current Treatment): Export from Embedded Generator to BC Hydro. This scenario was provided in my original prepared testimony¹⁹ and is provided here to facilitate comparison. In this scenario, a generator within FBC’s service area is selling power to BC Hydro for BC Hydro’s use to serve native load. Under the current treatment, this transaction results in the zero charge for the use of FBC’s transmission system. In my view this is consistent with the license plate approach. BC Hydro’s customers are paying for the BC Hydro transmission system through their retail rates. This is their payment under the license plate approach, and it gets those customers access to the other transmission system included within the harmonization area (FBC’s transmission system) at no additional cost.

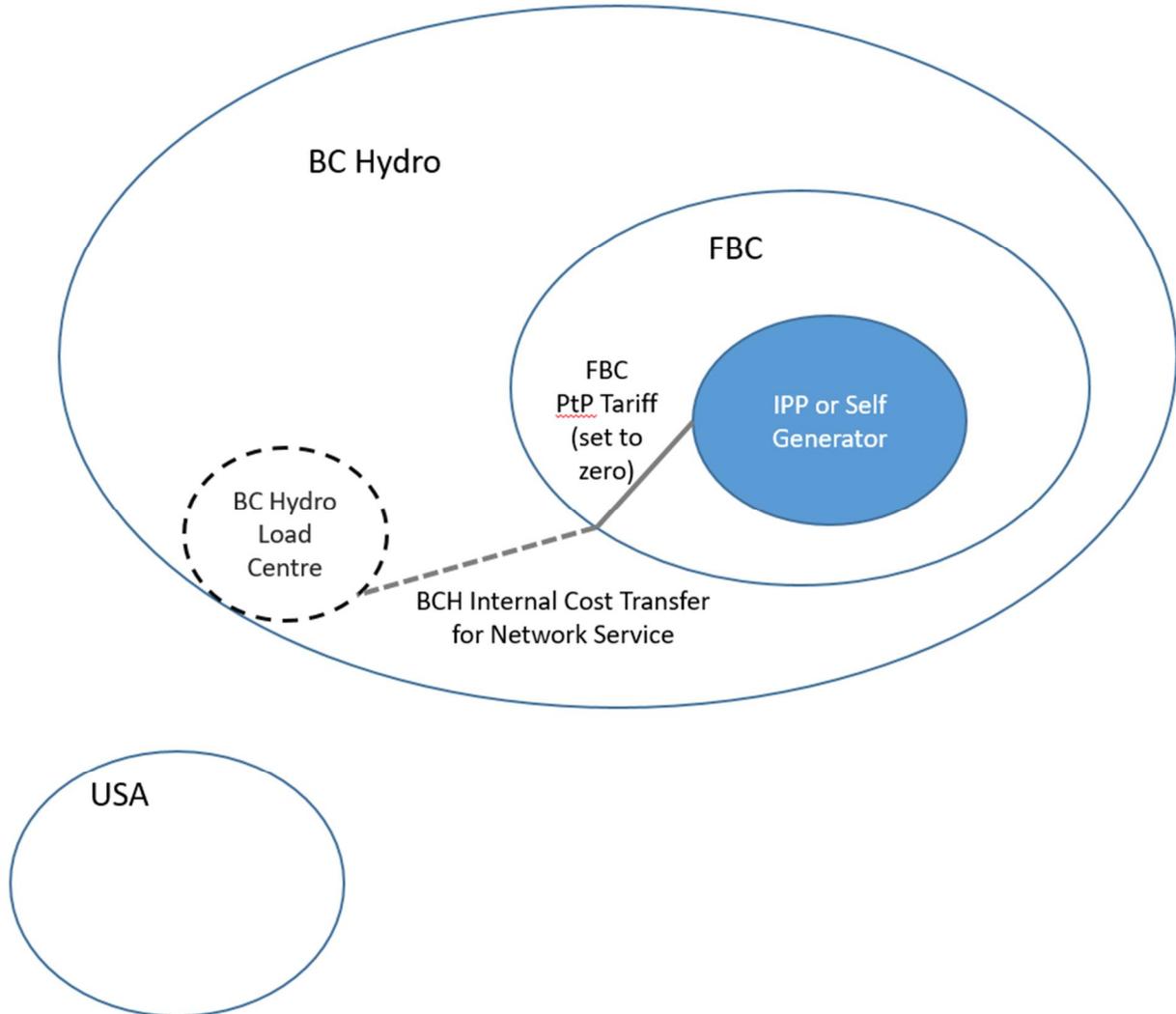
Under FBC’s proposed changes, this transaction would not receive the zero rate for the use of FBC’s transmission system. If BC Hydro accessed that generation resource located in the FBC service area on behalf of its customers (i.e. procured energy to serve native load), BC Hydro’s customers would have to pay the cost of BC Hydro’s transmission system (since these costs are already included within BC Hydro’s rates)²⁰, as well as FBC’s typical point-to-point transmission

¹⁹ Exhibit C12-6, Prepared Testimony of Will Cleveland, p. 9.

²⁰ In the diagram, this is referred to as “BCH Internal Cost Transfer for Network Service”.

charges. Despite having paid for the cost of the transmission system within their zone, they would nevertheless be denied the benefits of the license plate approach to harmonization. Meanwhile, if New Westminster procured energy from that same generator located within FBC's service area, it would receive the benefit of the license plate system, as it would only have to contribute to the cost of BC Hydro's transmission system, and would receive the zero rate for its use of the FBC transmission system.

Scenario B (Current Treatment): Export from Embedded Generator to BC Hydro



- 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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Confirmed that a rate design which eliminates multiple transmission charges is not the same as a rate design which entirely eliminates, under all conditions, the need to pay all transmission

charges. The license plate approach to harmonization reduces multiple transmission charges by eliminating the need for utilities to pay some transmission charges under certain conditions. It does not completely eliminate the need to pay transmission charges. Each participating utility's customers continue to pay for their use of the transmission system in their zone, as described in the response to BCUC ICG IR 1.7.2, so end-use customers are still contributing to transmission system costs – but only to the costs within their zone of the harmonization area. Any point-to-point use of the transmission system which is entirely within a single zone of the harmonization area will incur typical transmission charges (as defined in my response to BCUC ICG IR 1.6.1). However under certain conditions transmission charges paid to one utility are eliminated.

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.

RESPONSE:

The following response was provided by Mr. Cleveland.

Not confirmed. Based on the FBC quote provided in the preamble, I believe that FBC and I have used the same basic definition of the license plate approach. Under the license plate approach, end-use customers receive access to a larger regional transmission system by paying for transmission system costs within their zone or sub-area. Depending on the type of customer, their payment for the use of the transmission system in their zone may be via an unbundled transmission tariff, or it may be via bundled rates which include an allocation of transmission system costs. Regardless, end-use customers pay for the use of the transmission system in their own zone and they receive the benefit of access to a larger transmission system – in the case of B.C., the combined transmission systems of BC Hydro and FBC.

That said, FBC's proposed changes are in my view difficult to reconcile with the license plate approach. I offer the following observations:

- I am not familiar with any principle that would justify establishing the license plate approach to transmission harmonization, but specifically excluding transactions where utilities within the harmonization area are purchasing energy to serve native load. Utility ratepayers already pay for their own transmission system through bundled rates.

- It seems particularly unusual to me to establish the license plate approach to transmission harmonization between two utilities, then specifically exclude the energy procurement activities of those same two utilities (and therefore, those utilities' end-use customers) from the benefits of harmonization. I do not see how it would serve the public interest to exclude BC Hydro's ratepayers and FBC's ratepayers from the benefits of transmission pricing harmonization, while extending the benefits of transmission harmonization to entities with retail access to the transmission system, or end-use customers located outside of B.C.
- I am not familiar with any other jurisdiction where the license plate approach has been applied in the manner proposed by FBC.

8.0 **Reference: TRANSMISSION SERVICES
Exhibit C12-6, Testimony of Elroy Switlishoff: 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. Switlishoff'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.

RESPONSE:

The following response was provided by Mr. Switlishoff.

Confirmed, the terms of the June 30, 2006 were only applicable until October 31, 2006 to coincide with the effective date of November 1, 2006 in the Transmission Access Agreement (Exhibit C).

8.1.1 If confirmed, please confirm, or explain otherwise, that the Letter does not reflect a current agreement between Zellstoff-Celgar and FBC.

RESPONSE:

The following response was provided by Mr. Switlishoff.

Please refer to the response to BCUC IR 8.1.

As part of Mr. Switlishoff'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. Switlishoff'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.

RESPONSE:

The following response was provided by Mr. Switlishoff.

Not confirmed. Section 6.2 of the “Specifications For Long-Term Firm Point-To-Point Transmission Service” on page 6 of Exhibit D states the transmission charge as “Tariff Rate Schedule 101 – Long-term and Short-term Firm Point-to-Point Transmission Service, as amended from time to time.” The Tariff Rate Schedule 101 contains the specific reference to the \$0.00 charge for wheeling.

- 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.

RESPONSE:

The following response was provided by Mr. Switlishoff.

The term was for a period of at least 12 months and then continued until lawfully terminated by either party.

- 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.

RESPONSE:

The following response was provided by Mr. Switlishoff.

Confirmed, 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 Switlishoff, p. 7; Exhibit B-1, Appendix I-1, 1998 Joint
BC Hydro WKP Harmonization Application
RS 101 harmonization provisions**

On page 7 of Mr. Switlishoff’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. Switlishoff'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.

RESPONSE:

The following response was provided by Mr. Switlishoff.

The quote above from Appendix I-1 of the Application was assumed to refer to BC Hydro deliveries to the Lardeau and Yahk points of interconnection, which were otherwise served by FBC Rate Schedules 40 and 42.