BC Hydro
Power smart

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November 21, 2019

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. 1599038
British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
Application for 2019 Letter Agreement with Powerex Corp.
Responses to BCUC Panel Information Request No. 1

BC Hydro writes to provide, as Exhibit B-7, its responses to BCUC Panel Information Request No. 1.

For further information, please contact the undersigned.

Yours sincerely,

Fred James
Chief Regulatory Officer

st/af

Enclosure

1.0 Reference: SHORT-TERM OPERATIONAL REQUIREMENTS
Exhibit B-4, BCUC IR 5.1, 6.4
Planning Horizon

British Columbia Hydro and Power Authority's (BC Hydro) response to BCUC IR 5.1 included the following statements:

> The operating time horizon is zero to three years. This is the time horizon within which the Generation System Operations business group has accountability to plan the use of generation resources that are available to BC Hydro to ensure that load serving obligations are met. The 2019 Letter Agreement was signed in the context of this operating time horizon and is another tool available to Generations System Operations to use to respond to changing system and market conditions.
>
> Because the BC Hydro system is in planning surplus under average water conditions, the 2019 Letter Agreement is only useful to BC Hydro to secure forward purchases of electricity within the year when there may be a known deficit in the operating time frame.[1]

BC Hydro's response to BCUC IR 6.4 stated: "BC Hydro commits that it will not specify a Delivery Term that is greater than three years in length, and has reflected that commitment in an amended proposed order filed with these IR responses."

1.1.1 How often is the operating time horizon, as described in the preamble, reset? (i.e. is a new operating three-year time horizon determined every month/quarter/year/etc.)? In your response, please confirm whether or not the operating time horizon reflects a rolling period up to three years.

RESPONSE:

The operating time horizon, as it is generically referred to, is a three-year period. To ensure it does not overlap with the planning horizon it is more precisely defined as the balance of the current fiscal year and the following two fiscal years (and so does not ever exceed three years). The operating time horizon is not determined by or affected by the term of the 2019 Letter Agreement (which is indefinite), and not determined by or affected by the Delivery Term specified in a Purchase Interest Request issued under the 2019 Letter Agreement.

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[1] Emphasis added.

BC Hydro's commitment to not specify a Delivery Term greater than three years means it would always, with one exception, specify a Delivery Period that ended no later than the end of the second fiscal year following the fiscal year in which the Purchase Interest Request is made. The one exception that could arise is if BC Hydro were to issue a Purchase Interest Request at the beginning of a fiscal year, in which case it could specify a Delivery Term that ended three years later.

Energy Studies are done monthly and look out five years for the reasons set out in BC Hydro's response to BCOAPO IR 1.2.1. BC Hydro confirms that the operating time horizon is not a rolling period up to three years.

1.0 Reference: SHORT-TERM OPERATIONAL REQUIREMENTS
Exhibit B-4, BCUC IR 5.1, 6.4
Planning Horizon

British Columbia Hydro and Power Authority's (BC Hydro) response to BCUC IR 5.1 included the following statements:

> The operating time horizon is zero to three years. This is the time horizon within which the Generation System Operations business group has accountability to plan the use of generation resources that are available to BC Hydro to ensure that load serving obligations are met. The 2019 Letter Agreement was signed in the context of this operating time horizon and is another tool available to Generations System Operations to use to respond to changing system and market conditions.
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> Because the BC Hydro system is in planning surplus under average water conditions, the 2019 Letter Agreement is only useful to BC Hydro to secure forward purchases of electricity within the year when there may be a known deficit in the operating time frame.[1]

BC Hydro's response to BCUC IR 6.4 stated: "BC Hydro commits that it will not specify a Delivery Term that is greater than three years in length, and has reflected that commitment in an amended proposed order filed with these IR responses."

1.1.2 Please reconcile the above statements to describe how the 2019 Letter Agreement aligns with the operating time horizon. In your response, please explain the frequency of forecasting load serving obligations (i.e. monthly, quarterly, annually) and how forecasts of load serving obligations overlap within the operating time horizons, if any.

RESPONSE:

The Generation System Operations business group has a number of different roles and tools that are used to plan the use of generation resources to ensure that load serving obligations are met. Chapter 5C.9 in the BC Hydro Fiscal 2020 to Fiscal 2021 Revenue Requirement Application describes the different departments and roles within Generation System Operations (attached). The methods by which Generation System Operations makes decisions to maximize the value of BC Hydro's generation resources is described in section 4.4 of the same

[1] Emphasis added.

application (attached as Appendix 3 to the August 2, 2019 application). The combination of these roles and tools enables a continuous planning function.

The Energy Study is the primary tool for forecasting the system operations out five years at a monthly timescale and it is updated each month with any new information such as unit outages, load, and forecasted inflows. The monthly Energy Studies are also the basis for forecasting the Cost of Energy for various reporting requirements, such as revenue requirement applications and the Service Plan.

In addition to the monthly Energy Studies, Generation Systems Operations creates seven-day operating plans with the most current information. In turn, the seven-day operating plans are revised daily and daily plans are further revised hourly, or more frequently as required, by the 24/7 shift office.

Specific plans for regional systems (for example the Campbell River system), are accounted for and incorporated into the monthly Energy Studies, the seven-day plans, daily plans, and hourly operations.

The 2019 Letter Agreement provides a firm resource option that is available for Generation System Operations for use within the operational time frame.

5C.8.3 Fiscal 2020 and Fiscal 2021 Plan Operating Costs and FTEs

Table 5C-13 Construction Services KBU Operating Costs and FTEs

	Schedule Reference	F2017 RRA	F2017 Actual	F2018 RRA	F2018 Actual	F2019 RRA	F2019 Forecast	F2020 Plan	F2021 Plan
		1	2	3	4	5	6	7	8
Operating Costs ($ million)	5.3 L5	13.5	11.4	13.7	12.4	13.9	12.8	13.2	13.3
FTEs	16.0 L19	404	411	404	409	404	398	397	397

Operating costs are increasing by approximately $0.4 million from fiscal 2019 forecast to fiscal 2020 plan and by approximately $0.1 million from fiscal 2020 plan to fiscal 2021 plan, due to Standard Labour Rate increases. FTEs are planned to remain constant.

5C.9 Generation System Operations KBU

5C.9.1 Responsibilities

The Generation System Operations KBU is responsible for planning the operation of BC Hydro's reservoirs and generation facilities and for integrating other resources into those operations to meet BC Hydro's load obligations.

The Generation System Operations KBU plans short to mid-term (hourly up to three years) dispatch of both the Heritage Assets and the dispatchable Non-Heritage generating resources. This involves the consideration of inputs such as loads, inflows, outages, and market conditions. This KBU also determines the surplus system capability available to BC Hydro's electricity trading subsidiary, Powerex. In addition, the Generation System Operations KBU manages BC Hydro's water licenses as well as the Columbia River Treaty, Canal Plant Agreement, Keenleyside Entitlement Agreement and the Waneta Co-Possessors and Operating Agreement with Teck.

This KBU was called Generation Resource Management in the Previous Application. The name was changed to better reflect its role and to distinguish its functions from

the Stations Field Operations KBU. There have been no material changes to the responsibilities of this KBU since the Previous Application.

The Generation System Operations KBU is composed of the following five departments:

- Planning, Scheduling and Operations Department;
- Operations Planning Department;
- Planning and Licensing Department;
- Hydrology Department; and
- Generation System Operations Department.

5C.9.1.1. Planning, Scheduling and Operations Department

This department directs the real-time operation of the BC Hydro generation system and water release facilities. This includes scheduling hourly generation of the BC Hydro system and contracted IPPs and identifying Powerex trade limits. The dispatch of these decisions is conducted by T&D System Operations KBU.

5C.9.1.2. Operations Planning Department

This department is responsible for planning water releases and generation dispatch over the medium to long-term (daily/weekly to multi-year time horizon). In addition, this department implements coordination agreements with utility partners, directs the purchase and sale of electricity from Powerex for domestic needs, sets system reservoir price signals, and forecasts the cost of operations for financial reporting purposes.

5C.9.1.3. Planning and Licensing Department

This department is responsible for managing BC Hydro's water licenses, coordination agreements including the Columbia River Treaty and Canal Plant

Agreement, as well as conducting system analysis and modelling to determine operational and financial benefits and impacts.

5C.9.1.4. Hydrology Department

This department provides weather, inflow and wind forecasts for operational purposes throughout BC Hydro. It also manages a hydro-meteorological data collection network and maintains records of generation facility operations.

5C.9.1.5. Generation Systems Operations Department

This department provides resources, tools, and support to the Generation System Operations KBU. The department's primary areas of responsibility include management of the KBU, application support, and administrative services.

5C.9.2 Overview of Operating Costs and FTEs

Table 5C-14 Generation System Operations KBU Fiscal 2019 Forecast Operating Costs and FTEs by Department

($ million)	Labour	Services - ABSU	Services - Other	Materials	Building & Equipment	Capitalized Overhead	External Recoveries	Total Operating	Total FTEs
Planning, Scheduling and Operations	2.3	0.0	0.2	0.0	0.0	0.0	0.0	**2.6**	14
Operations Planning	2.8	0.0	0.4	0.0	0.0	0.0	0.0	**3.2**	16
Planning and Licensing	1.7	0.0	0.4	0.0	0.0	0.0	0.0	**2.1**	10
Hydrology	1.5	0.0	3.0	0.0	0.2	0.0	0.0	**4.7**	13
Generation Systems Operations	1.5	0.0	0.1	0.0	0.4	0.0	0.0	**2.0**	11
Total (Sch 5.3 L6, Sch 16.0 L20)	**9.9**	**0.0**	**4.1**	**0.0**	**0.6**	**0.0**	**0.0**	**14.6**	**64**

From fiscal 2016 to fiscal 2019, total operating costs for this KBU increased by $0.9 million from $13.7 million to $14.6 million. This increase was primarily driven by:

- Increased licensing and maintenance costs required to support specialized applications and models;
- Increased expenditures related to the Water Use Plan Order Reviews; and
- Increased hydrometric monitoring costs.

These cost increases were partially offset by a budget reduction of $0.2 million in fiscal 2019.

From fiscal 2016 to fiscal 2019, total FTEs for this KBU remained constant at 64.

5C.9.2.1. Planning, Scheduling and Operations Department

This department's budget mainly consists of labour costs for 14 FTEs, which includes one manager, a specialist engineer responsible for maintaining all information technology functions and 12 shift Engineers. The shift Engineers rotate through three roles which plan for the next seven days of operation, direct the real-time (24/7) operation of BC Hydro generation and water management, and support the 24/7 operation including after-the-fact analysis of operational decisions related to generation and water management.

This department also has a non-labour budget of $0.2 million for dedicated specialized desktop and local area network support due to the criticality of the technology used by the department.

5C.9.2.2. Operations Planning Department

This department's budget mainly consists of labour costs for 16 FTEs, which includes one manager and 15 FTEs organized into three sub functions: Operations Planning Engineers, Resource Coordinators, and System Optimization Engineers. Engineers in this department plan generation, plant generating capacity, water conveyance and inter-annual storage management, over a daily to multi-year time frame, in coordination with transmission and other system constraints.

This department also has a non-labour budget of $0.4 million for engineering services related to the monitoring and operations of BC Hydro's generating facilities along the Peace River.

5C.9.2.3. Planning and Licensing Department

The Planning and Licensing department's budget consists mainly of labour costs from 10 FTEs, which includes a manager and nine FTEs who work on Water License renewals, Water Use Plan Order Reviews, coordination agreements

including the Columbia River Treaty and Canal Plant Agreement, and mid-term and long-term (multi-year) modelling.

This department also includes a non-labour budget of $0.4 million to mainly support resourcing requirements for Water Use Plan Order Reviews.

5C.9.2.4. Hydrology Department

The Hydrology department consists of 13 FTEs, including one manager and 12 FTEs organized into weather and climate services (daily tailored forecast products); operational runoff forecasting (daily and seasonal); hydrometric monitoring station management, and generation data analysis.

The Hydrology department also manages over $3.0 million in service contracts including:

- A cost sharing program with Environment Canada on the operations and maintenance of Canada's Water Survey Stations;
- Hydraulic consultants who operate and maintain BC Hydro's network of 76 Water Stations in Northern and Southern B.C.;
- An agreement with the University of British Columbia to provide numerical weather and wind forecasts; and
- Funding to support the Pacific Climate Impacts Consortium quantitative studies on the impacts of climate change in the Pacific region.

5C.9.2.5. Generation System Operations Department

This department's budget mainly consists of labour costs associated with 11 FTEs including the Director of Generation System Operations, a manager of business operations, a manager of business systems, administrative staff that support the KBU, and application leads who oversee the KBUs information technology applications and tools.

5C.9.3 Fiscal 2020 and Fiscal 2021 Plan Operating Costs and FTEs

Table 5C-15 Generation System Operations KBU Operating Costs and FTEs

	Schedule Reference	F2017 RRA	F2017 Actual	F2018 RRA	F2018 Actual	F2019 RRA	F2019 Forecast	F2020 Plan	F2021 Plan
		1	2	3	4	5	6	7	8
Operating Costs ($ million)	5.3 L6	14.5	16.0	14.7	14.2	14.8	14.6	15.0	15.2
FTEs	16.0 L20	64	65	64	68	64	64	63	63

Operating costs are increasing by approximately $0.4 million from fiscal 2019 forecast to fiscal 2020 plan and by approximately $0.2 million from fiscal 2020 plan to fiscal 2021 plan, due to Standard Labour Rate increases. FTEs are planned to remain constant.

5C.10 T&D System Operations KBU

5C.10.1 Responsibilities

The T&D System Operations KBU is responsible for managing the real time operation of the BC Hydro generation, transmission, distribution and telecommunication systems as well as day-ahead planning of the electricity grid. This KBU relies on input from other BC Hydro departments responsible for scheduling generation, maintenance, and the interconnection of new facilities. It also coordinates with other registered entities in B.C. to ensure the reliable operation of non-BC Hydro facilities such as IPPs and B.C. entities with generation and/or transmission assets.

In addition, this KBU is responsible for managing unplanned outages, implementing BC Hydro's safety policies and procedures for transmission and distribution and supporting and implementing emergency management preparedness plans. This KBU facilitates fair and open access to the transmission grid for all customers through administration of the Open Access Transmission Tariff and the operation of the wholesale transmission market.

1.0 Reference: SHORT-TERM OPERATIONAL REQUIREMENTS
Exhibit B-4, BCUC IR 5.1, 6.4
Planning Horizon

British Columbia Hydro and Power Authority's (BC Hydro) response to BCUC IR 5.1 included the following statements:

> The operating time horizon is zero to three years. This is the time horizon within which the Generation System Operations business group has accountability to plan the use of generation resources that are available to BC Hydro to ensure that load serving obligations are met. The 2019 Letter Agreement was signed in the context of this operating time horizon and is another tool available to Generations System Operations to use to respond to changing system and market conditions.
>
> Because the BC Hydro system is in planning surplus under average water conditions, the 2019 Letter Agreement is only useful to BC Hydro to secure forward purchases of electricity within the year when there may be a known deficit in the operating time frame.[1]

BC Hydro's response to BCUC IR 6.4 stated: "BC Hydro commits that it will not specify a Delivery Term that is greater than three years in length, and has reflected that commitment in an amended proposed order filed with these IR responses."

1.1.2.1 Please explain why BC Hydro is committing to a Delivery Term up to three years in length if "the 2019 Letter Agreement is only useful within the year when there may be a known deficit in the operating time frame."

RESPONSE:

BC Hydro has committed to Delivery Terms that do not go beyond the operating time horizon, i.e. the current fiscal year and the following two fiscal years. BC Hydro made the commitment because it inferred from information requests in this proceeding that there was a concern that BC Hydro might use the 2019 Letter Agreement to procure forward physical electricity outside the operational time horizon, and potentially use it to manage its electricity requirements in the planning horizon.

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[1] Emphasis added.

BC Hydro anticipates that in most circumstances it would not specify Delivery Terms that end more than one year from the issuance of a Purchase Interest Request. However, there may be other circumstances in which forward physical purchases beyond one year may be useful, such as due to a major outage or a longer-term derate in the generating or bulk transmission system. BC Hydro could plan for such a situation more than a year in advance and therefore the 2019 Letter Agreement could be useful for that purpose.

The response to BCUC IR 1.5.1 could more accurately have said that "Because the BC Hydro system is in planning surplus under average water conditions, the 2019 Letter Agreement is <u>generally</u> only useful to BC Hydro to secure forward purchases of electricity within the year when there may be a known deficit in the operating timeframe…[underlining added to original response]".

The 2019 Letter Agreement provides a firm resource option for Generation System Operations to use and the three year commitment matched the time horizon that Generation System Operations is accountable for in planning the operations. The statement in the preamble regarding the usefulness of the 2019 Letter Agreement within the year was included in the response to BCUC IR 1.5.1 to indicate that BC Hydro would generally not be motivated to purchase forward energy beyond the time period when we have a substantial risk of a deficit. The IR also stated that, "The 2019 Letter Agreement also provides flexibility to secure imports in a particular month when imports are required to meet load due to a major planned outages in the system."

While limiting the Delivery Term up to three years was seen as a way to address a potential concern, BC Hydro does not see any reason to limit our flexibility to use the 2019 Letter Agreement in the operating timeframe.

1.0 Reference: SHORT-TERM OPERATIONAL REQUIREMENTS
Exhibit B-4, BCUC IR 5.1, 6.4
Planning Horizon

British Columbia Hydro and Power Authority's (BC Hydro) response to BCUC IR 5.1 included the following statements:

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> Because the BC Hydro system is in planning surplus under average water conditions, the 2019 Letter Agreement is only useful to BC Hydro to secure forward purchases of electricity within the year when there may be a known deficit in the operating time frame.[1]

BC Hydro's response to BCUC IR 6.4 stated: "BC Hydro commits that it will not specify a Delivery Term that is greater than three years in length, and has reflected that commitment in an amended proposed order filed with these IR responses."

1.1.3 Please explain why the 2019 Letter Agreement was not amended to reflect BC Hydro's commitment that it would not specify a Delivery Term that is greater than three years in length.

RESPONSE:

BC Hydro made the above-noted commitment to provide comfort to the BCUC and interveners that it would not use the 2019 Letter Agreement to meet its load-serving obligations in the planning time horizon. It could have amended the 2019 Letter Agreement to the same effect, but that would have precipitated a new section 71 filing, at increased cost and time, with no incremental benefit.

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[1] Emphasis added.

2.0 Reference: CONTRACT TERMINATION
Exhibit B-1, p. 2; Exhibit B-4, BCUC IR 4.1, 6.4; Exhibit B-5, CEC IR 5.1
Updated Transfer Pricing Agreement (TPA)

BC Hydro states in its Application that "the 2019 Letter Agreement is a longer term arrangement in effect until terminated by either party."

In response to BCUC IR 4.1, BC Hydro stated it "…will terminate the 2019 Letter Agreement when BC Hydro and Powerex revise the 2003 TPA."

BC Hydro's response to BCUC IR 6.4 stated:

> The length of a Delivery Term specified by BC Hydro in a Purchase Interest Request is not expressly constrained, but BC Hydro will use the 2019 Letter Agreement to manage supply issues only in the short-term operational timeframe. Please refer to BC Hydro's response to BCUC IR 1.5.1 for a further discussion of what is meant by the 'short-term operational timeframe'. To that end, BC Hydro commits that it will not specify a Delivery Term that is greater than three years in length, and has reflected that commitment in an amended proposed order filed with these IR responses.

In response to CEC IR 5.1, BC Hydro stated:

> …BC Hydro and Powerex are currently working on a revised TPA, which is expected to be filed this winter. The key advantage of the 2019 Letter Agreement to a revised TPA is that it was able to be crafted and implemented quickly, whereas a revised TPA takes more time to develop and implement. Accordingly, the 2019 Letter Agreement is expected to be a bridging agreement until a revised TPA is finalized and implemented.

1.2.1 Please discuss why the TPA is expected to be filed this winter, given that the 2019 Letter Agreement has no termination date and that "a revised TPA takes more time to develop and implement" than the time required to craft and implement the 2019 Letter Agreement.

RESPONSE:

The statement in the Application that the 2019 Letter Agreement is a longer term arrangement was made in the context of a comparison to the 2018 Letter

Agreement, which was in effect for only seven months (December 1, 2018 to June 30, 2019).

The 2019 Letter Agreement is a longer term arrangement in effect until terminated by either party. That is, the 2019 Letter Agreement has neither a fixed term nor an expiry date.

At the time that the 2019 Letter Agreement Application was submitted, BC Hydro did not know how long it would take to complete the work to revise the TPA, and therefore could not predict the date when the 2019 Letter Agreement would no longer be useful. In the Application we indicated this work was underway and the 2019 Letter Agreement could be considered a bridging mechanism. By the time that the responses to Intervenor IRs were filed in October, BC Hydro and Powerex had advanced the work on the revised TPA to a point that BC Hydro was able to state with more confidence that the revised TPA would be expected to be filed this winter.

The 2019 Letter Agreement will be terminated to align with the effective date of the revised TPA, so that the maximum duration of the 2019 Letter Agreement will be for the time period up to the effective date of the revised TPA.

2.0 Reference: CONTRACT TERMINATION
Exhibit B-1, p. 2; Exhibit B-4, BCUC IR 4.1, 6.4; Exhibit B-5, CEC IR 5.1
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In response to CEC IR 5.1, BC Hydro stated:

> …BC Hydro and Powerex are currently working on a revised TPA, which is expected to be filed this winter. The key advantage of the 2019 Letter Agreement to a revised TPA is that it was able to be crafted and implemented quickly, whereas a revised TPA takes more time to develop and implement. Accordingly, the 2019 Letter Agreement is expected to be a bridging agreement until a revised TPA is finalized and implemented.

1.2.2 Please explain how the 2019 Letter Agreement is a longer term arrangement if BC Hydro expects to file the revised TPA this winter.

RESPONSE:

Please refer to BC Hydro's response to BCUC Panel IR 1.2.1.

2.0 Reference: CONTRACT TERMINATION
Exhibit B-1, p. 2; Exhibit B-4, BCUC IR 4.1, 6.4; Exhibit B-5, CEC IR 5.1
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1.2.2.1 Please confirm, or explain otherwise, that the maximum duration of the 2019 Letter Agreement is the earlier of the operating time horizon (0-3 years) or upon the execution of a revised TPA.

RESPONSE:

Please refer to BC Hydro's response to BCUC Panel IR 1.2.1.

2.0 Reference: CONTRACT TERMINATION
Exhibit B-1, p. 2; Exhibit B-4, BCUC IR 4.1, 6.4; Exhibit B-5, CEC IR 5.1
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1.2.2.2 Please explain whether the 2019 Letter Agreement would be terminated upon: a revised TPA; BC Hydro's filing of the Application for acceptance of the revised TPA with the BCUC; or issuance of the BCUC's determination with respect to the revised TPA.

RESPONSE:

Please refer to BC Hydro's response to BCUC Panel IR 1.2.1.