

COMMENTS ON BC HYDRO'S RESPONSE TO BCUC EXHIBIT A-35

**THE CLEAN ENERGY ASSOCIATION OF
BRITISH COLUMBIA**

Re: BRITISH COLUMBIA HYDRO and POWER AUTHORITY

F2020-F2021 Revenue Requirements Application

June 18, 2020

CEABC Comments re BC Hydro's Oral Response to BCUC Exhibit A-35

In Exhibit A-35, "Panel Questions to BC Hydro for the Oral Phase of the Argument," BC Hydro was asked:

"2.1 Please clarify how it is possible to maximize the value of surplus energy while maximizing Powerex's trade income. Please provide a concrete historical example of this/these scenario(s)."

The Clean Energy Association of B.C. ("CEABC") wishes to note that in its oral response, BC Hydro ("BCH") said:¹

"And first, as a point of clarification, trading utilizing residual system capability is only a portion of Powerex's trade activity that ends up as trade income. Within the context of the RRA, trading utilizing residual system activity gets labeled as "net purchases" or "(Sales)" from Powerex."

In BCH's response to the CEABC's Final Argument², the use of BCH's system to back Powerex's energy or capacity sales is described as being only a portion of trade income. BCH goes on to say that Powerex also earns trade income from buying and selling market power that never utilizes the BC Hydro system resources. However, no breakout of trade income, in terms of the utilization of BC Hydro system resources, is ever given. The BCUC and interveners have no idea whatsoever of the risk to reward ratio of using the BC Hydro system to allow Powerex to earn trade income.

The CEABC also wishes to note that BCH did not answer the BCUC's question which specifically asks about maximizing the value of surplus energy. Instead BCH recast the question in terms of "residual system capability" which includes energy and capacity and then referenced testimony from BCH that was about how Powerex was restrained because of a "high winter peak,"³ which is a capacity constraint, rather than an energy constraint.

The time horizon for determining residual system capability for capacity is much shorter than for energy (assuming capacity sales are largely, if not exclusively, short term), and consequently there is less risk of error. The time horizon when considering energy constraints is much longer, because it includes the current and future amounts of water in the storage reservoirs, the expected system inflows, and the expected domestic loads over a long period of time (e.g. three years). This was evidenced by the decision in the summer of 2018 to sell energy in response to high energy prices in the U.S., the consequences of which didn't fully manifest

¹ Transcript, Volume 16, page 2924

²BC Hydro's Reply Submission, page 36: "Powerex's activities include exports and imports from the BC Hydro system, but also include extensive trading and marketing activity and associated deliveries that do not interact with the BC Hydro system."

³Transcript, Volume 16, page 2926

themselves until the winter and spring of 2019. The risk of error regarding energy decisions is much higher because of the time horizon.

It would have been helpful if BCH had answered the question as posed so that the BCUC and the interveners would have obtained a better understanding of how it is possible to maximize the value of surplus energy while maximizing Powerex's trade income. How are the risks and rewards weighted?

One further point regarding question 2.1 has to do with the discussion that occurred between the Chairperson and BC Hydro's representative as to whether the term "*income*" also includes expenditures.⁴ The discussion concluded with:

THE CHAIRPERSON: So it's on a net basis?

MR. AHMED: That's correct, it's on a net consolidated basis.

CEABC believes these final remarks may have left some confusion as to whether expenditures had been included, as per the Chairperson's inquiry. BC Hydro has been consistent throughout in stating that its objective is always the maximization of consolidated net revenues, not net income. It is CEABC's understanding that the "*netting*" of revenues, as referred to in BC Hydro's phrasing, only refers to the deduction of BC Hydro purchases from BC Hydro sales as between BC Hydro and Powerex, not to the deduction of operating expenses, sales commissions, etc. BC Hydro can confirm this, or describe it more accurately, so as to leave no confusion.

It's perhaps unfortunate that the terms "*Powerex's net income*" and "*trade income*" are used, because the use of the term "*income*" can lead to the conclusion that expenses or costs have been deducted when it is CEABC's understanding that only net revenues are being maximized, not net income. Additional expenses or costs are not considered in the optimization, other than the cost of energy purchases.

All of which is respectfully submitted.

⁴ Transcript, Volume 16, page 2927-2929.