

September 18, 2020

Ms. Marija Tresoglavic
Acting Commission Secretary and Manager
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

by e-mail to commission.secretary@bcuc.com

Re: Catalyst Paper Request to Reduce RS1893 Baselines Rebuttal Evidence

Dear Ms. Tresoglavic,

Catalyst Paper has summarized our experience to date in the appended charts to provide some context for the Commission in its evaluation of the arguments and evidence presented to date.

1. Data Observations

The key observations from the charts in Appendices 1, 2 and 3 (these charts will be redacted in the public version) are:

1. there is no evidence of load shifting on a monthly basis as a result of the interim baselines, in fact more energy was consumed during periods of higher RS1893 pricing – particularly at Crofton (Appendices 1 & 2);
2. the load at Crofton has remain depressed whereas the load at Port Alberni was greater in July and August than in the prior 6 months of CY2020. (Appendices 1 & 2); and,
3. the daily and monthly purchases of RS1893 are ***positively correlated with the price*** which is counterintuitive to the obvious price signal to use more power when it is less expensive and vice versa. (Appendix 3).

2. Discussion on Data

a. Absence of Load Shifting

The magnitude of the pandemic's impact on paper demand has meant that the availability of product orders has been the primary determinant of operating schedules and limited the ability to shape load to optimize energy costs.

b. Increased Load at Port Alberni

The proposed baselines for both sites were based on April 2020 as representative of a "COVID-19" month without the impact of the earlier malware incident. The increased load for July and August is driven by several factors, particularly a change in the product mix that has resulted in higher energy consumption due to the furnish composition of

those products. This has been in response to market forces, not the RS1893 rate. The higher production rate in August coincident with the high RS1893 price is evidence of this.

c. Price Elasticity Conundrum

The confusing pricing and load correlation is driven by a couple of factors. Firstly, the availability of orders has been the primary driver of production schedules and this has slowly improved since we have made our application, however there were few opportunities in June 2020 when the RS1893 prices were lowest and therefore there were limited RS1893 purchases at those low rates even with the lower interim baselines. Secondly, the gradual increase in paper demand, and therefore load, in July and August coincided with higher RS1893 prices, particularly in August 2020. It should be noted that the common thread is that the refundable nature of the interim baselines meant that orders were analyzed and committed to on the basis that the energy price would be equal to RS1823, which means that there may have been orders not taken in June 2020 that would have been cost effective to produce at RS1893 rates and we were forced to absorb higher energy rates when the RS1893 price exceeded RS1823 in August 2020.

d. Impact on the Effective Energy Rate

The overall energy rate that a customer pays under RS1893 is a function of:

- i. Customer Load;**
- ii. Baselines; and,**
- iii. RS1893 Pricing**

in HLH and LLH period. The effective energy rates shown in Figure 1 represent the sum of RS1893 and RS1823 purchases in dollars divided by the total energy purchased under all rate schedules in MWh. The energy rate savings since the interim baselines were implemented, June – August 2020, are [REDACTED] **for Crofton and [REDACTED] for Port Alberni** relative to RS 1823 **Tier 1** rates. Note that the high pricing in August created a penalty for Crofton in August 2020. There was no material energy cost savings for RS1893 participation prior to June 2020 due to the lower demand at the mills relative to the original baselines.



Figure 1. Effective Energy Rates CY2020

3. Relevance to the Application

a. Transition to the Blended Rate is Challenging

BC Hydro has argued that moving a customer to RS1823A, the blended rate, is the preferred mechanism for dealing with the requested baseline reduction. The relatively narrow margins relative to Tier 1 rates that we have witnessed during this interim baseline period suggests that a lower baseline in combination with a move to RS1823A has the potential to increase energy costs and reduce a customer's ability to utilize any excess capacity it has available.

b. RS1893 Represents a Risk to Participants as Well

Catalyst knows that RS1893 provides an opportunity for incremental production, however there is also significant market price risk that we either absorb directly by purchasing energy at a premium or curtailing our operations. Our experience in August 2020 demonstrated this risk.

c. Interim Baselines are Difficult to Manage

Catalyst appreciates the granting of our requests on a refundable basis however our recent experience, as borne out by the attached data, indicates the challenges from this situation and we are looking forward to a timely decision.

Thank you for your consideration on this matter.

Best Regards,

A handwritten signature in black ink that reads "Carlo Dal Monte". The signature is written in a cursive, flowing style.

Carlo Dal Monte

VP Energy & Strategic Development
Paper Excellence Canada

Appendix 1: Crofton Monthly Data

Appendix 2: Port Alberni Monthly Data

Appendix 3 Daily RS1893 Purchases

Submitted in confidence to the BCUC