



BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-12-99

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Applications by West Kootenay Power Ltd.
and British Columbia Hydro and Power Authority
for Approval of Rate Harmonization on their Transmission Systems

BEFORE: P. Ostergaard, Chair)
L.R. Barr, Deputy Chair)
K.L. Hall, Commissioner) January 28, 1999
F.C. Leighton, Commissioner)

O R D E R

WHEREAS:

- A. The Commission, by Order No. G-29-98, set down a Pre-hearing Conference on West Kootenay Power Ltd.'s ("WKP") then-current Transmission Access Application. During the April 23, 1998 Pre-hearing Conference, attendees identified the need for harmonizing the transmission wheeling rates between WKP and British Columbia Hydro and Power Authority ("B.C. Hydro"). The objective of harmonization is to eliminate rate stacking or "pancaking" – that is, the payment by customers of two transmission wheeling tariffs on transactions where power is moved between utility service areas; and
- B. By Letter No. L-19-98, the Commission directed that WKP and B.C. Hydro should work together to develop suitable arrangements and to issue a joint proposal. In the event that no agreement could be reached, then separate proposals were to be filed by each utility. Letter No. L-68-98 extended the date by which the proposals should be filed; and
- C. On October 5, 1998, B.C. Hydro and WKP jointly applied to the Commission for approval of a Rate Harmonization proposal to harmonize transmission wheeling rates between their respective service areas. The effect of the proposed tariff and power purchase agreement amendments is to relieve transmission service customers from the requirement to pay both B.C. Hydro's and WKP's transmission wheeling rates by charging only the transmission service rate of the utility within whose service area the customer taking service is located; and
- D. On October 23, 1998, the Commission wrote to intervenors registered in either of B.C. Hydro's or WKP's open access proceedings, to elicit views on the disposition of the harmonization proposal; and

- E. On December 3, 1998, the Commission provided an information request to B.C. Hydro and WKP to which they jointly responded on January 6, 1999; and
- F. The Commission has reviewed the joint proposal between WKP and B.C. Hydro and finds that it should be approved and Reasons for Decision issued.

NOW THEREFORE the Commission orders as follows:

1. The Commission approves the joint B.C. Hydro/WKP rate harmonization proposal subject to review after two years, effective immediately. Reasons for Decision are attached as Appendix A to this Order.
2. B.C. Hydro and WKP are directed to file amended electric tariffs reflecting this decision.
3. B.C. Hydro and WKP are to provide copies of the approved tariffs, this Order and Reasons for Decision to all known participants and interested parties on this matter.

DATED at the City of Vancouver, in the Province of British Columbia, this 4th day of February 1999.

BY ORDER

Original signed by:

Peter Ostergaard
Chair

Attachment

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY AND WEST KOOTENAY POWER LTD.
TRANSMISSION RATE HARMONIZATION APPLICATION

REASONS FOR DECISION

1.0 INTRODUCTION

1.1 Background

On April 23, 1998, a pre-hearing conference was held regarding West Kootenay Power Ltd.'s ("WKP") then-current Transmission Access Application. At that conference, discussions took place among WKP, the British Columbia Hydro and Power Authority ("B.C. Hydro"), the British Columbia Utilities Commission ("Commission") staff, and other participants concerning the need to harmonize transmission wheeling rates between WKP and B.C. Hydro. The objective of harmonization is to eliminate rate stacking or "pancaking" — that is, the payment by customers of two transmission wheeling tariffs on transactions where power is moved between utility service areas.

During the pre-hearing conference, there appeared to be agreement that transmission wheeling rate harmonization was desirable, and that WKP and B.C. Hydro should work together to craft a suitable arrangement. By Letter No. L-19-98, the Commission directed WKP and B.C. Hydro to file, by September 18, 1998, a joint letter outlining their common proposal. In the event that no agreement could be reached by that date, separate letters were to be filed by each utility. By Letter No. L-68-98, the Commission granted an extension of the September 18th deadline to October 2, 1998.

On October 5, 1998, B.C. Hydro and WKP filed a joint transmission wheeling rate harmonization proposal with the Commission. On October 23, 1998, the Commission wrote to intervenors registered in either of B.C. Hydro's or WKP's open access proceedings to elicit views on the disposition of the rate harmonization proposal. In particular, the Commission asked about the need for a formal public hearing and about the acceptability of approval, subject to review after two years. Any responses were to be received by November 9, 1998.

The Interior Municipal Electrical Utilities, the Consumers Association of Canada (BC Branch) et al (“CAC(BC)”), the Bonneville Power Administration, WKP, and the Industrial Customers all agreed that a formal public hearing into this issue was not warranted at this time. In addition, all parties except the CAC(BC) supported adopting the proposal, subject to review after two years. The CAC(BC) argued for a review after just one year.

1.2 Description of the Application

B.C. Hydro and WKP have proposed to harmonize their transmission wheeling rates using a “license plate” approach. Under such a scheme, the transmission customer is charged only the transmission wheeling rate of the utility within whose service territory the customer is located. To accomplish this, WKP’s Rate Schedules 101 and 102 and B.C. Hydro’s Rate Schedules 3001 and 3002 would be amended so that the transmission rate is set at zero for wheeling to points of interconnection between the two Utilities.

Amendments to various power purchase agreements are also proposed to ensure that electricity trade between the two Utilities is not favoured relative to other suppliers, by the absence of a wheeling charge on energy bought under either B.C. Hydro’s Rate Schedule 3808 or WKP’s Rate Schedule 40. No changes are needed to the terms and conditions of access for either Utility.

2.0 ISSUES FOR CONSIDERATION

This Application has raised two major areas for Commission consideration. First, the Commission has sought to ensure that the license plate approach to harmonization is appropriate for the provincial circumstance. Second, the Commission has evaluated the prospect of extending harmonization beyond just transmission rates, and into the areas of transmission losses and ancillary services.

2.1 The License Plate Approach

The license plate approach to harmonization can create a transfer of revenue responsibility between the ratepayers of participating utilities. Since most open access transactions in B.C. are expected to run from the B.C. Hydro system to the WKP system, and since these transactions will tend to displace Rate Schedule 3808 transactions – through which WKP ratepayers make their contribution to the B.C. Hydro transmission system – there is likely to be a net transfer of cost responsibility for the B.C. Hydro system

toward B.C. Hydro ratepayers and away from WKP ratepayers. B.C. Hydro describes this lack of neutrality as an unavoidable consequence of harmonization between the two systems.

The extent of this revenue shift would be determined by market prices, since WKP's eligible transmission customers would only leave the Utility's embedded-cost supply when the delivered market price is below WKP's Schedule 40 rate. According to B.C. Hydro and WKP, this would require a market price of less than 2.4 cents per kWh, which the Utilities hold to be unlikely.

For perspective, the extreme case of all WKP's wholesale customers switching to suppliers other than WKP would produce an \$8 million revenue loss for B.C. Hydro. In such a case, B.C. Hydro and WKP have said that they would consider establishing a mechanism to collect the lost revenue from WKP customers, where such losses could not be offset by margins from increased market sales.

2.2 Commission Determinations

The Commission supports a license plate approach for its simplicity. As well, the Commission sees few problems with its application as long as the use of wheeling tariffs is relatively low. Still, the license plate approach is probably not a harmonization method that could survive indefinitely, since in a high-use environment the shifting of revenue responsibility would reach unacceptable levels.

Therefore, the Commission accepts that a license plate approach to transmission wheeling rate harmonization is appropriate, subject to review after two years.

2.3 Loss and Ancillary Services Harmonization

Questions have been raised, notably by the Industrial Customers, about the harmonization of losses, something that is not a part of the current proposal. In particular, the Industrial Customers assert that summing the line losses of both Utilities for a cross-boundary transaction would lead to an over recovery of losses (the Industrial Customers argue that if the average losses on each system are 7 percent, for example, then the average losses on a combined system would also be 7 percent, so charging a joint 14 percent is inappropriate). As such, the Industrial Customers have asked the Commission to instruct the Utilities to eliminate this "double recovery".

B.C. Hydro and WKP have stated their belief that rate harmonization is appropriate only for the allocation of embedded costs, since these costs are not affected by individual wheeling transaction. Rate harmonization is not appropriate where additional costs are caused by individual wheeling transactions. The Utilities assert that wheeling transactions impose real line losses on both Utilities, and should correctly be additive – not, as the Industrial Customers appear to suggest, averaged across both systems.

The Utilities take a similar position with respect to ancillary services, suggesting that each utility should charge for the ancillary services that it provides. B.C. Hydro and WKP state, however, that only Scheduling, System Control and Dispatch (“SSCD”) and Reactive Supply and Voltage Control (“RSVC”) would need to be purchased from both Utilities.

2.4 Commission Determinations

The Commission agrees with the Utilities’ position on harmonizing losses and ancillary services. While the average loss rate on a combined WKP/B.C. Hydro system may not be exactly the sum of the individual loss rates, it would not simply be the average of the two rates, either. In any case, a postage stamp approach to losses makes no representations of capturing the real losses of any given transaction, so any inaccuracies created by failing to harmonize system losses are unlikely to be unique in either kind or scope.

Considering that the permanency of a license plate approach to harmonization is open to question, the Commission does not support the investment of further resources to modify the existing proposal. Specifically, attempting what would be a quite complex harmonization of losses does not seem to be a useful expenditure of utility or intervenor resources at this time.

As such, the Commission approves, subject to review after two years, the changes identified as Appendices A, B, and C in the October 5, 1998 Application from WKP and B.C. Hydro.