ROBERT J. PELLATT
COMMISSION SECRETARY
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BRITISH COLUMBIA UTILITIES COMMISSION

Letter No. L-39-01

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
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Log No. 100

VIA FACSIMILE

November 8, 2001

Mr. David Bursey
Bull Housser and Tupper
3000 Royal Centre
P.O. Box 11130
1055 West Georgia Street
Vancouver, B.C.
V6E 3R3

Dear Mr. Bursey:

Re: British Columbia Hydro and Power Authority ("B.C. Hydro")
Joint Industry Electricity Steering Committee Complaint on Rate Schedule 1854

On October 5, 2001, the Commission received a letter on behalf of your client, the Joint Industry Electricity Steering Committee ("JIESC"), with respect to Rate Schedule 1854: Power Smart Industrial Rate Pilot Program ("RS 1854"). In the letter, the JIESC indicated that B.C. Hydro did not offer prices for non-firm low load hour ("LLH") and high load hour ("HLH") energy for a 3-month pricing period as required by Section 4.4 of RS 1854. The JIESC requested that the Commission instruct B.C. Hydro to offer prices for non-firm LLH and HLH energy for a 3-month pricing period and allow customers 3 business days to accept the offer.

The Commission forwarded the JIESC's letter to B.C. Hydro and asked B.C. Hydro to comment on the issues raised in the letter. In its October 18, 2001 response, B.C. Hydro explained why it chose not to offer the 3-month non-firm or the 6-month firm options. B.C. Hydro indicated that although the RS 1854 average price (CDN $42.50/MWh) was somewhat lower than the average Mid-Columbia ("Mid-C") price on a weighted flat block basis (CDN $52.50/MWh) for the 3-month non-firm option, that option involved B.C. Hydro taking on all of the price risk associated with the non-firm product. B.C. Hydro also showed that ratepayers would be financially harmed if it offered the six-month firm option to RS 1854. As a result, B.C. Hydro indicated that it would have no choice but to cancel the agreements for those customers whose agreements were about to expire if it were required to offer all three of the pricing options. Due to the likelihood of ongoing volatility in the markets, and the co-operative effort by B.C. Hydro and its participating customers in implementing the pilot program, B.C. Hydro was reluctant to give notice of termination only two months into the program. B.C. Hydro therefore decided to make an offer containing only the six-month non-firm option.

The Commission forwarded B.C. Hydro's October 18, 2001 response to the JIESC and asked for its comments on B.C. Hydro's letter. The JIESC provided additional comments in a letter dated November 1, 2001.

The Commission agrees with B.C. Hydro that it should appropriately terminate the contracts of customers before extending offers that would harm ratepayers. Since participation in RS 1854 is voluntary, extending

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an offer with certain of the three options excluded can not make participating customers worse off than terminating the contracts. As long as the remaining options do not harm non-participating customers, making an incomplete offer should be better for all parties than terminating the contracts.

Based on the information provided by B.C. Hydro, it could not offer the 6-month firm option without expected harm to the ratepayers. For the 3-month non-firm option, the Commission finds that the relatively narrow gap between the RS 1854 price and the market price combined with the risk to B.C. Hydro associated with the non-firm product could have potentially harmed ratepayers. The Commission therefore finds that B.C. Hydro's exclusion of this option was not unreasonable and denies the JIESC's request that B.C. Hydro be required to offer the 3-month non-firm option.

RS 1854 is a pilot program that is set to expire on July 31, 2002. B.C. Hydro is required to provide an evaluation of the program by September 30, 2002 by Commission Order No. G-65-01. The Commission expects that B.C. Hydro will discuss the exclusion of certain options from offers in the evaluation report and define the circumstances in which options will not be offered in any new, permanent rate schedule.

B.C. Hydro indicated that five RS 1854 participants did not accept an offer for the period starting in November, 2001. Since customers who leave RS 1854 do not have the option to return at a later date, these customers are currently ineligible to participate in RS 1854 for the remainder of the pilot program. The Commission recognizes that uncertainty surrounding the exclusion of the 6-month firm and 3-month non-firm options may have affected participants' decisions not to accept B.C. Hydro's offer. The Commission is also concerned that excluding these five customers could reduce the effectiveness of the pilot program in terms of the information base provided for the purposes of establishing a similar, permanent tariff. Accordingly, the Commission requested that B.C. Hydro waive the "no-return" feature on this occasion only in the attached letter to B.C. Hydro dated November 8, 2001. Specifically, the Commission requested that B.C. Hydro allow the customers that participated from August to October, but did not accept an offer for the period starting in November, to return to RS 1854 for the period starting in February, 2002 unless B.C. Hydro would have otherwise terminated the contracts at that point.

The Commission asked B.C. Hydro to inform participating customers and the Commission promptly and provide an explanation if it is unable to offer all three pricing options in the future. The Commission also suggested that B.C. Hydro may wish to consider modifications to the winter and firm premiums to express the premiums on a percentage basis or otherwise adjust the pricing options to avoid similar problems in the future. The Commission would be open to pricing changes that allow B.C. Hydro to continue to offer multiple options to participants if these changes have participant support and would not harm ratepayers.

Yours truly,

Original signed by:

Robert J. Pellatt

MAG/ac
Attachment
cc: Mr. Ray Aldeguer, Senior Vice President
Legal and Regulatory Affairs and General Counsel
British Columbia Hydro and Power Authority

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BRITISH COLUMBIA UTILITIES COMMISSION

Letter No. L-40-01

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VIA FACSIMILE

November 8, 2001

Mr. Ray Aldeguer
Senior Vice President
Legal and Regulatory Affairs and General Counsel
British Columbia Hydro and Power Authority
333 Dunsmuir Street
Vancouver, B.C. V6B 5R3

Dear Mr. Aldeguer:

Re: British Columbia Hydro and Power Authority ("B.C. Hydro")
Joint Industry Electricity Steering Committee Complaint on Rate Schedule 1854

In a letter dated October 1, 2001, the Joint Industry Electricity Steering Committee ("JIESC") requested that the Commission instruct B.C. Hydro to offer prices for non-firm low load hour and high load hour energy for the 3-month pricing period starting in November, 2001. This request was denied by the Commission in the attached letter dated November 8, 2001. The Commission believes, however, that the Rate Schedule 1854 ("RS 1854") participants who did not accept an offer for the period starting in November, 2001 should not be excluded from future participation in the program since the uncertainty surrounding the exclusion of the 6-month firm and 3-month non-firm options may have affected participants' decisions not to accept B.C. Hydro's offer. The Commission is also concerned that excluding these customers could reduce the effectiveness of the pilot program in terms of the information base provided for the purposes of establishing a similar, permanent tariff. Accordingly, the Commission requests that B.C. Hydro waive the "no-return" feature on this occasion only. Specifically, the Commission requests that B.C. Hydro allow the customers that participated from August to October, but did not accept an offer for the period starting in November, to return to RS 1854 for the period starting in February, 2002 unless B.C. Hydro would have otherwise terminated the contracts at that point.

The Commission finds that B.C. Hydro should have provided an explanation to participating customers and the Commission of why it was unable to offer all three pricing options prior to or at the time the offers were extended. The Commission asks that B.C. Hydro inform participating customers and the Commission promptly and provide an explanation if it is unable to offer all three pricing options in the future.

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B.C. Hydro may wish to consider modifications to the winter and firm premiums to express the premiums on a percentage basis or otherwise adjust the pricing options to avoid similar problems in the future. The Commission would be open to pricing changes that allow B.C. Hydro to continue to offer multiple options to participants if these changes have participant support and would not harm ratepayers.

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Attachment
cc: Mr. David Bursey
Bull, Housser & Tupper

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