



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** C-4-09A

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: <http://www.bcuc.com>

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

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

and

An Application by British Columbia Hydro and Power Authority
Toad River Electrification Project Application

BEFORE: A.J. Pullman, Panel Chair and Commissioner September 15, 2009
A.A. Rhodes, Commissioner

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

WHEREAS:

- A. British Columbia Hydro and Power Authority ("BC Hydro") filed its Remote Community Electrification ("RCE") application (the "Application") with the British Columbia Utilities Commission (the "Commission") for the community of Toad River on June 19, 2009 pursuant to sections 45, 46 and 61 of the *Utilities Commission Act* (the "Act"); and
- B. BC Hydro applied for a Certificate of Public Convenience and Necessity ("CPCN") because Toad River is a new service area that will not be interconnected to the existing BC Hydro electrical system; and
- C. In the Application, BC Hydro applied for orders which grant a CPCN to serve the community of Toad River and for electricity tariff amendments to have Toad River listed as a Rate Zone II community; and
- D. BC Hydro states that the Application for the community of Toad River is consistent with the 2007 Energy Plan, Electricity Policy Actions No. 27 and No. 28, and BC Hydro's RCE 20-year Program Plan; and
- E. As required by the CPCN Application Guidelines and Letter L-18-04, Appendix P of the Application includes the additional requirements for a New Service Area; and
- F. On June 25, 2007, the B.C. Government enacted the Remote Communities Regulation and issued Special Direction No. 10 that directs the Commission to ensure that BC Hydro makes available to customers in remote communities the same rates and services it makes available in the Non-Integrated Areas ("NIA"); and
- G. On June 25, 2009 the Commission issued a letter to BC Hydro stating that it is considering proceeding with the Application on its own motion without further process, requesting comments from the BC Hydro F2009/F2010 Revenue Requirements Application Intervenors by July 10, 2009, with BC Hydro responding to those comments by July 17, 2009 and providing an evidentiary update of the Liard First Nation issues by July 31, 2009; and
- H. On June 28, 2009, the Liard First Nation filed a letter stating that it is currently working to address a number of concerns it has with BC Hydro's proposal and its impact on our Aboriginal rights and title interests; and

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER C-4-09A**

2

- I. The British Columbia Old Age Pensioners Organization *et al.* ("BCOAPO"), B.C. Sustainable Energy Association *et al.* ("BCSEA"), Commercial Energy Consumers Association of British Columbia ("CEC") and the Joint Industry Electricity Steering Committee ("JIESC") filed comments on the regulatory process proposed by the Commission and the process for streamlining future RCE applications and, on July 17, 2009, BC Hydro filed its reply to the comments; and
- J. On July 23, 2009 the Commission issued Letter L-53-09 supporting a workshop be held on August 14, 2009 on the RCE program and the Toad River Electrification Project (the "Project") and requesting that parties file information requests with regard to the RCE program and the Project by Friday, July 31, 2009 and that BC Hydro provide a response to the information requests by August 11, 2009; and
- K. On July 31, 2009 BC Hydro filed an evidentiary update on consultations with First Nations, and copies were provided to all Identified First Nations; and
- L. BC Hydro published a notice of the August 14, 2009 workshop in newspapers between July 31 and August 5, 2009 and provided direct notice to all Identified First Nations; and
- M. By letter dated August 6, 2009, the Commission requested that BC Hydro file a further evidentiary update in respect of First Nations consultation prior to the August 14th workshop; and
- N. BCOAPO, BCSEA and CEC provided information requests to BC Hydro and BC Hydro responded to all of the information requests on August 12, 2009; and
- O. On August 13, 2009, BC Hydro filed with the Commission the second evidentiary update in regards to First Nations consultations and provided copies to all Identified First Nations; and
- P. On August 14, 2009 BC Hydro held a workshop in Vancouver and on August 21, 2009, provided a list of attendees and a summary of comments at the workshop on the RCE program and the streamlining of the regulatory process for the RCE program; and
- Q. In accordance with the Commission's letter dated July 23, 2009, BCOAPO, BCSEA and CEC provided final written comments in respect of the Application on August 21, 2009; and
- R. BC Hydro filed its Final Submission on August 28, 2009 thus completing the Commission's comment process; and
- S. In its Final Submission, BC Hydro stated "Liard First Nation does not oppose the issuance of a CPCN or the modification of the Tariff, as requested in the Application" and "no one [else] opposes the issuance of the orders sought in this Application"; and
- T. CEC and BCSEA requested that certain conditions be placed on the CPCN. The Commission has considered these requests and other matters raised by participants that relate to the Application and that relate to the RCE program and the efficient regulatory review of other RCE projects, and determines that it should make specific directions with regard to certain matters; and
- U. The Commission has considered the Application for the community of Toad River, evidence, and submissions of BC Hydro and the participants and the Applicant and determines that the Application for the community of Toad River is in the public interest and is consistent with the 2007 Energy Plan, Electricity Policy Actions No. 27 and No. 28, the Remote Communities Regulation and Special Direction No. 10.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER C-4-09A**

3

NOW THEREFORE the Commission, for the attached Reasons for Decision, orders as follows:

1. Pursuant to sections 45 and 46 of the Act, BC Hydro is granted a CPCN for a diesel generation plant to serve Toad River and to take over the distribution system in Toad River currently owned by the Northern Rockies Regional Municipality, as set out in the Application.
2. BC Hydro is directed to provide a final project report in a format agreed to by Commission Staff within 30 days of the completion of the Project.
3. Pursuant to section 61 of the Act, the revised tariff sheets to include Toad River as a Rate Zone II community, as set in the Application, are approved.
4. BC Hydro is directed to monitor and report annually on demand side measures and electricity consumption at Toad River relative to an energy usage baseline established in 2009 for the Toad River Project, with the purpose of assessing the extent of fuel switching to electric energy and identifying tariff and other ways to prevent undesirable fuel switching.
5. BC Hydro is directed to establish a Remote Community Electrification Program Plan ("RCEP") working group including stakeholders and First Nations representatives to develop a streamlined regulatory process for projects under the program as soon as reasonably possible.
6. BC Hydro is directed to file with the Commission a proposal for the streamlined regulatory review of RCEP projects, along with criteria defining acceptability of a project that will allow a simplified CPCN application and review for a project, or an exclusion from the requirement for BC Hydro to obtain a CPCN in most cases. The proposal will reassess the objectives of the RCEP in terms of quality and reliability of service, will review the options available to provide service including optimal use of renewable generation sources and distributed generation, and will revisit administration and other costs of the program with the intention of making the program as cost-effective as possible. BC Hydro will file the proposal within 60 days of the date the Commission releases its decision on the next application for a RCEP project.
7. BC Hydro is directed to file an annual report on the RCEP that includes communities and number of customers served, quantity of electricity delivered, renewable electricity initiatives and production, DSM programs and impact, and annual and cumulative capital expenditures and administration and other expenses and revenue. The annual report will include a three year forecast of costs and revenue.

DATED at the City of Vancouver, in the Province of British Columbia, this 17th day of September 2009.

BY ORDER

Original signed by:

A.J. Pullman
Panel Chair and Commissioner

Attachment

An Application by British Columbia Hydro and Power Authority
Toad River Electrification Project Application

REASONS FOR DECISION

INTRODUCTION

On June 19, 2009, the British Columbia Hydro and Power Authority ("BC Hydro") submitted an Application for a Certificate of Public Convenience and Necessity ("CPCN") to the British Columbia Utilities Commission ("Commission") pursuant to sections 45 and 46 of the *Utilities Commission Act*, R.S.B.C. 1996 c. 473 as amended, (the "Act") for its Toad River Electrification Project ("Toad River Project"). BC Hydro also seeks an order amending its Tariff, pursuant to s. 61 of the Act, assuming the Toad River Project is approved (the "Application").

BC Hydro states that the Toad River Project is the first project to be brought forward under its "Remote Community Electrification Program (RCEP)", by which it proposes to provide electricity service to approximately 30 -40 eligible remote communities which are not part of the BC Hydro grid, are not in a "non-integrated area", which BC Hydro already serves, and are not otherwise provided with electricity by any public utility. The eligible communities comprise "First Nations communities" which are located on reserve land and receive funding for electricity from the Federal Government through Indian and Northern Affairs Canada and "civic communities", which are off reserve and do not receive such funding. (Application Appendix L, p. 4) The prime objective of the Program is "for BC Hydro to ... [p]rovide reliable, safe, cost-effective electric utility service in all willing and eligible remote communities by 2017" (Application, p. 8, Appendix L, p. 5).

Toad River is an unincorporated community located at mile 422 of the Alaska Highway, in north-eastern British Columbia and situated within the boundaries of the Northern Rockies Regional Municipality ("Municipality"). Its residents currently provide for their own energy needs.

The Municipality has completed construction of an electrical distribution system in Toad River, at an approximate cost of \$780,000; \$300,000 of which was provided by the Provincial Government with the balance expected to be recovered from property owners in Toad River. Further, each resident who wants BC Hydro electrical service has agreed to pay the cost of connecting his individual property to the distribution line (which is estimated to range anywhere from \$3,000 to \$9,000). BC Hydro will acquire the distribution system from the Municipality for a nominal price of \$1.00 and will then be obligated to serve anyone in Toad River with premises within 90 meters of the distribution system, seeking service.

BC Hydro estimates there are 40 potential customers in Toad River, 27 of whom have already applied for service.

BC Hydro is looking to be able to provide electrical service to Toad River, through a temporary diesel-powered generating facility, by the fall of 2009 (Application, pp. 2-3).

PROCEDURAL BACKGROUND

BC Hydro filed its Application for the Toad River Project in mid-June, 2009 with the proposal that the Application proceed by way of a written hearing process, with a workshop, one round of Information Requests ("IR"s) followed by final written submissions (Application, pp. 5-6).

By letter dated June 25, 2009 to BC Hydro the Commission invited comments from Registered Intervenor in BC Hydro's F2009-2010 Revenue Requirements Application on the Commission's proposal to deal with the Application on its own motion and without further public process.

The Liard First Nation responded to the Commission's June 25, 2009 request for comments on June 28, 2009 indicating that it was working with BC Hydro in an attempt to resolve its concerns and asked that, if a satisfactory resolution was not reached by the July 31st date suggested by the Commission, a review process be undertaken by the Commission to consider the consultation and accommodation of its interests, prior to the issue of a CPCN.

The British Columbia Old Age Pensioners Organization *et al.* ("BCOAPO") requested a written hearing process, with one round of IRs followed by submissions, suggesting that, as the Toad River Project may be the first in a series of similar projects, some degree of public scrutiny was warranted.

The B.C. Sustainable Energy Association and the Sierra Club of British Columbia ("BCSEA") indicated a willingness to accommodate a compressed overall timeframe, but supported the holding of a workshop and the issue of one round of IRs. The Commercial Energy Consumers Association of British Columbia ("CEC") also supported a Workshop and a single round of IRs.

The Joint Industry Electricity Steering Committee ("JIESC") indicated general support for a shortened process but expressed concern as to the length of the Application (over 500 pages including appendices), the high capital cost of the Toad River Project when compared to the number of customers it is expected to serve, and the lateness in the filing of the Application (after many expenditures had already been incurred). JIESC also expressed concern in terms of the precedent of the Toad River Project for the rest of the RCEP, and submitted that the entire Program should be reviewed for a single CPCN, with simple compliance filings for each new community to be added, followed by post-electrification reports on capital costs and annual reports for operating costs.

BC Hydro noted the substantial interest in the RCEP expressed by many of the Intervenor and proposed to discuss streamlining the process and reducing the volume of materials to be filed in future applications at a Workshop. BC Hydro otherwise proposed to proceed with the Application, as filed.

By letter dated July 23, 2009 the Commission approved a single round of IRs, followed by a Workshop which would address the issue of streamlining the RCEP generally, as well as the cost-effectiveness of the Toad River Project. The Workshop was scheduled for August 14, 2009. BC Hydro was asked to provide a summary of any comments received at the Workshop concerning the RCEP and the streamlining of its regulatory process by August 21, 2009. Participants other than BC Hydro were also asked to provide their comments on the Workshop by August 21, 2009. BC Hydro was asked to file its comments one week later.

On July 31, 2009 BC Hydro filed an Evidentiary Update on its First Nations consultation for the Toad River Project.

By letter dated August 6, 2009 the Commission requested BC Hydro to file a further Evidentiary Update for the Toad River Project prior to the Workshop.

BC Hydro filed a further evidentiary update of its First Nations consultation record, as requested, on August 13, 2009.

The Workshop proceeded, as scheduled, on August 14, 2009. There were approximately 20 participants from roughly 13 groups, other than representatives of BC Hydro.

BC Hydro filed its Workshop Summary on August 21, 2009.

Comments were subsequently received from BCSEA, CEC and BCOAPO.

BC Hydro filed its submissions on August 28, 2009.

THE REMOTE COMMUNITY ELECTRIFICATION PROGRAM

BC Hydro states that it established its RCEP in 2006 in furtherance of its objective to provide reliable, safe, cost-effective electric utility service to remote communities. (Application, p. 10; BC Hydro Argument, p. 1)

The RCEP received the support of the Provincial Government, initially through the 2007 Energy Plan where it issued Policy Actions Nos. 27 and 28, which were to: "Pursue Government and BC Hydro's planned Remote Community Electrification Program to expand or take over electricity service to remote communities in British Columbia" (No 27) and to "Ensure BC Hydro considers alternative electricity sources and energy efficiency measures in its energy planning for remote communities" (No 28).

Section 2 of BC Regulation 240/2007 (the "Remote Communities Regulation") issued pursuant to the BC Hydro Public Power Legacy and Heritage Contract Act [SBC 2003 c. 86] in June, 2007 obliges BC Hydro to provide electricity service to persons in a remote community whose premises are located within 90 meters of a distribution line and who apply for the service and agree to pay the established rates. The Regulation also provides that BC Hydro is not relieved of its obligation to apply for a CPCN. Toad River is one of five communities designated as a "Remote Community" in the Schedule to the Regulation.

By Order in Council No. 508 dated June 25, 2007 the Provincial Government issued Special Direction No. 10 to the BCUC, section 5 of which provides that , in setting rates for BC Hydro, the Commission must ensure BC Hydro's "rates and classes of service available to customers in the non-integrated area [defined as Anahim Lake, Atlin, Bella Bella, Bella Coola, Dease Lake, Eddontenajon, Queen Charlotte Islands and Telegraph Creek District], ...are available to customers who receive electricity service under section 2 of the Remote Communities Regulation." It further provides that, in setting rates for BC Hydro, the Commission must ensure that the rates are sufficient to allow BC Hydro to, amongst other things, recover the costs related to the provision of such service.

As noted above, Toad River is a "civic community" and the first community proposed to receive electricity service under the RCEP. It has a distribution system in place and potential customers requesting service have agreed to pay the connection charge, and presumably the applicable rate for electricity service, once in place.

Toad River Project

The British Columbia 2007 Energy Plan, the Remote Communities Regulation and Special Direction 10 require BC Hydro to provide service to persons in certain remote communities who request service and are prepared to pay the established rates for service in the Non-Integrated Areas ("NIA"). As a result, the Commission's review on the Application for Toad River mainly concerns whether BC Hydro proposes to carry out its obligations in an efficient and cost-effective manner and whether the Crown's obligation to consult and, if necessary, accommodate potentially affected First Nations has been adequately addressed. While BCSEA and CEC requested that certain conditions be placed on a CPCN for the Project, no one opposed the issuance of the orders requested in the Application.

The Toad River Project consists of the acquisition and preparation of a site, the mobilization of temporary generators until a permanent facility is constructed, the construction of a permanent facility, the purchase and installation of diesel generators, the construction of the connection between the generating station and the existing distribution line and the acquisition of the distribution system from the Municipality.

The temporary generators to provide service in the fall of 2009 are estimated to cost \$233,200. The expected capital cost to construct the permanent generation facility is \$2.3 million, including the cost of the site. BC Hydro proposes to commence construction in May of 2010, and expects to complete it by August of the same year (Application, pp. 20-1).

The Project contemplates the housing of three diesel generators (two 275 kW and one 160 kW) together with controls, a switchgear, a diesel day tank and spare parts in a small, insulated, self-framing metal building constructed on a monolithic slab-on-grade foundation. The building is proposed to be heated with waste heat from the generators. The main diesel storage tank is to be located next to the building and comprises a horizontal, above ground, double-wall steel tank on a

curbed concrete foundation pad with a 50,000 litre capacity. Three single phase 100kVA, pole-mounted step-up transformers will also be installed inside the yard security fencing, next to the powerhouse building (Application, pp. 21-22).

The net annual operating cost (i.e. the anticipated annual capital and operating costs less revenues received) is estimated to be in the range of \$500,000 (Application, p. 24), which works out to a \$29,000 subsidy for each customer added.

BC Hydro estimates the cumulative rate impact from providing electrical service to Toad River to be approximately 0.03 percent (Application, p. 25).

(i) Alternatives Considered

BC Hydro indicates that it considered six options prior to selecting “diesel only” as its preferred alternative. The other options considered were four combinations of diesel and alternative energy, and connection to the existing grid near Fort Nelson. The renewable energy options included micro-hydro, in-stream hydro, solar photovoltaic and wind, but all require back-up diesel in any event as well as further study to determine feasibility. BC Hydro estimates the 25 year Present Value cost of the renewable energy option with diesel backup to be between \$10.0 and \$17.0 Million (Application, pp. 28-29).

BC Hydro states that connection to its system at Fort Nelson would entail construction of a 200 kilometre, 25 kilovolt distribution line through mountainous terrain with several river crossings for an estimated 25 year Present Value cost ranging from \$17 to \$21 Million. BC Hydro also suggests that the reliability of this option would be lower, due to the difficult terrain (Application, p. 29).

The selected “diesel only” option, in comparison, is a proven and reliable source of electricity and can be installed in a timely manner. Its disadvantages include greenhouse gas (“GHG”) emissions, increased risk of soil contamination and fuel price risk. The 25 year Present Value cost is estimated to be approximately \$10.3 Million (Application, p. 28).

BC Hydro acknowledges that the “diesel only” option is less environmentally attractive than the renewable energy options which it considered, but notes that none is immediately available and such options will require additional study to assess their feasibility. BC Hydro also notes that the renewable options would still require diesel back-up for reliability purposes and that proceeding with diesel in the short term would not preclude the continuing assessment of other renewable alternatives going forward (Application, p. 29).

The Commission Panel considers that BC Hydro assessed a complete range of supply options for Toad River, and accepts that diesel generation is necessary to provide reliable service in the short term. Diesel generation may also be necessary in at least a back-up role to provide reliable service over the longer term. Issues that have been raised about the use of electricity from renewable sources and the effect of demand side measures will be addressed in a subsequent section of this Decision. **The Commission Panel determines that the scope of the Project as set out in the Application is appropriate.**

(ii) First Nations Consultation

The Liard First Nation responded to the Commission’s June 25, 2009 request for comments on June 28, 2009 indicating that it was working with BC Hydro in an attempt to resolve its concerns and asked that, if a satisfactory resolution was not reached by the July 31st date suggested by the Commission, a review process be undertaken by the Commission to consider the consultation and accommodation of its interests, prior to the issue of a CPCN. The Liard First Nation was the only First Nation to express concerns about the Toad River Project.

BC Hydro filed two evidentiary updates on July 31, 2009 and August 13, 2009 outlining its consultation and engagement with First Nations. This correspondence and the Commission Letter L-53-09 were copied to all identified First Nations.

BC Hydro states that as a result of its discussions with the Liard First Nation, it modified the Project by: (i) moving the proposed permanent site closer to the Alaska Highway and reducing the physical footprint of the plant, thereby increasing the buffer zone between the plant and a neighbouring wetland (ii) enhancing the oil-water separation system and incorporating an additional gravel containment pit, (iii) enhancing operations and maintenance procedures, (iv) moving the site access road to avoid an area of archaeological significance and agreeing to also explore moving the intersection of the site access road with the Alaska Highway. These additional measures are estimated to cost approximately \$100,000 (August 13, 2009 BC Hydro Evidentiary Update; BC Hydro Final Submission, p. 7).

BC Hydro states that: “Liard First Nation advised BC Hydro that they are satisfied with the modifications to the Project and appreciate BC Hydro’s efforts to date to accommodate their interests. On the basis of assurances from BC Hydro of ongoing efforts to consult with Liard First Nation and reach appropriate accommodations, Liard First Nation does not oppose the issuance of a CPCN or the modification of the Tariff, as requested in the Application” (BC Hydro Argument, p. 7).

The Commission Panel has assessed the adequacy of consultation for the Toad River Project considering recent court decisions, particularly the British Columbia Court of Appeal decisions in *Carrier Sekani Tribal Council v. British Columbia (Utilities Commission)* 2009 BCCA 67 and *Kwikwetlem First Nation v. British Columbia (Utilities Commission)* 2009 BCCA 68. The evidence indicates that BC Hydro has informed all identified First Nations about the Project, and has consulted to a reasonable degree with the Liard First Nation. BC Hydro has modified the Project in several ways to accommodate the concerns of the Liard First Nation, and commits to continue consultations until the Project is complete. **The Commission Panel determines that First Nations Consultation is adequate at the present stage of the Project.**

(iii) British Columbia Energy Objectives

In making its Decision to grant a CPCN, the Panel is required under section 46(3.1) of the Act to consider the government’s energy objectives” which involve encouraging public utilities to:

- (a) Reduce GHG emissions;
- (b) Take demand side measures;
- (c) Produce, generate and acquire electricity from clean or renewable sources;
- (d) Develop adequate transmission infrastructure and capacity in the time required to serve persons who receive or may receive service from the public utility;
- (e) Use innovative energy technologies
 - (i) that facilitate electricity self-sufficiency or the fulfillment of their long-term transmission requirements, or
 - (ii) that support energy conservation or efficiency or the use of clean or renewable sources of energy;
- (f) Take prescribed actions in support of any other goals prescribed by regulation.

The Commission Panel must also consider the most recent long-term resource plan filed by the public utility. The most recent BC Hydro plan does not address remote communities (Application, p. 30).

The Commission Panel is also required to consider whether the application is consistent with the requirements imposed on the public utility under sections 64.01 and 64.02, if applicable. BC Hydro notes that this latter provision is not applicable to the Application as no criteria have yet been prescribed (Application, p. 30).

In terms of the Government’s Energy Objectives, BC Hydro indicated: it will pursue clean and renewable energy sources in Toad River once electrification is complete, it will implement Demand Side Management (“DSM”) initiatives both before and after electrification and it will “continue to explore innovative energy technologies to support energy conservation or efficiency and the use of clean or renewable sources of energy” (Application, p. 30). **The Commission Panel determines that BC Hydro’s commitment to continue to investigate clean energy alternatives and innovative technologies as well as to implement demand side measures is reasonable and sufficiently complies with the Government’s Energy Objectives.**

Both CEC and BCSEA support the Application for a CPCN and related Tariff amendment but argue that the Commission Panel should approve a CPCN with conditions. BCSEA suggests that if the Commission is inclined to issue a CPCN, it do so subject to the condition that it expires after a specific period, such as three years, pending BC Hydro's investigation of using alternate renewable energy sources in addition to diesel. BCSEA also asks the Commission to direct BC Hydro to do so in future applications. BCSEA also submits that, if the diesel-only approach is to be approved, BC Hydro should be required to obtain Green House Gas ("GHG") offsets. BC Hydro replies that the condition is unnecessary, and that it is unreasonable to impose a risk on residents of Toad River that service could be terminated in three years. BC Hydro also notes that it is under no legal obligation to purchase GHG offsets for the Project.

CEC suggests that the Commission approve the Toad River Project subject to the implementation of rate designs to prevent inappropriate fuel-switching from whatever is currently being used to electricity, and the implementation of strong DSM measures. BC Hydro responds that such conditions should not be imposed, as it is unknown whether any DSM measures will be cost-effective, the conditions are unnecessary as BC Hydro is motivated to implement DSM, and the Commission may not have authority to impose such conditions.

It is evident that BC Hydro and the other participants support the use of DSM to manage demand and the use of electricity from renewable sources, to the extent that such measures are reasonably cost-effective. BC Hydro is committed to assessing these measures at Toad River, both to reduce its operating costs and to act as a learning experience for other RCEP projects. The Commission Panel agrees that BC Hydro has no legal obligation to purchase GHG credits for the Project at this time, as the requirement relates to projects which connect to the grid. The Commission Panel concludes that, rather than condition the CPCN as requested, it should make certain directions to BC Hydro for Toad River and the RCEP for follow-up in these areas. These directions will be considered further in the section on the RCEP. **Therefore, the Commission Panel denies the requests of CEC and BCSEA for conditions on the CPCN.**

COMMISSION PANEL DETERMINATION

The Commission Panel has found that the Scope of the Project is appropriate, the First Nations consultation and accommodation to date is adequate, the Project is in compliance with the Government's Energy Objectives, and the CPCN will not include conditions. The Commission Panel considers that the Toad River Project is supported by Government policy and required by law. Furthermore, it is apparent that diesel generation is needed to provide reliable service for Toad River in a timely manner. The Commission Panel concludes that a CPCN for the Toad River Project should be granted, and the relevant Electric Tariff amended to add Toad River to the list of Rate Zone II communities as requested in the Application, and makes the following determinations.

Pursuant to sections 45 and 46 of the Act, BC Hydro is granted a CPCN for a diesel generation plant to serve Toad River and to take over the distribution system in Toad River currently owned by the Northern Rockies Regional Municipality, as set out in the Application.

BC Hydro is directed to provide a final report on the Project, in a format agreed to by commission staff within 30 days of the completion of the Project.

Pursuant to section 61 of the Act, the revised tariff sheets to include Toad River as a Rate Zone II community, as set out in the Application, are approved.

RCEP and Regulatory Process

The relief that BC Hydro seeks in the Application relates solely to Toad River, but Appendix L of the Application describes the Remote Community Electrification Program Plan. About 34 remote communities may be eligible to participate in the RCEP, and the average community has about 26 dwellings (BC Hydro Submission, p. 9). BC Hydro estimates the net present value cost of the program through Financial Year 2028 will be \$95 to \$130 million, including Program Staff and Delivery of \$15 to \$20 million. The net cost to other ratepayers is estimated to be \$70 to \$85 million (Application, Appendix L, pp. 31,

32). Therefore, both the cost-effectiveness of the manner that BC Hydro proposes to carry out the program and ways to provide efficient regulatory review of future RCEP projects warrant careful review.

Participants provided comments on several related matters, in the context of the Toad River Project and for the RCEP generally. CEC submits that quality of service in British Columbia already varies, and that BC Hydro should explore flexibility with regard to quality of service in order to find an appropriate balance for the cost of the service versus the quality (CEC August 21, 2009 Submission, section 5). BCOAP supports offering utility grade service, on the basis that the cost saving of offering a less reliable service is minimal (BCOAP August 24, 2009 Submission, p. 1). BC Hydro replies that it has established a 99 percent reliability target for remote communities, and that the Non-Integrated Areas (“NIA”) are the appropriate “measuring stick” for quality of service (BC Hydro August 28, 2009 Submission, p. 8).

CEC comments on the cost of service and cost-effectiveness for Toad River, while BCSEA also comments on the cost of the Project. BC Hydro states that it will make all commercially reasonable efforts to mitigate the impact on existing rate-payers by providing service in a cost-effective manner. However, BC Hydro also points out that the cost of service on a per account basis is not an impediment to a community being eligible to participate in the RCEP. BC Hydro considers the fundamental issue is the cost effectiveness of the selected electricity supply option relative to other supply options.

BCSEA submits that a renewable-plus-diesel concept may be more cost-effective than diesel-only, when the green house gas liability risk of diesel-only is taken into account (BCSEA August 21, 2009 Submission, p. 4). BC Hydro generally supports this assertion, but also notes that only diesel generation can provide year-round reliable service at Toad River. BC Hydro will pilot test alternative energy opportunities at Toad River, which should provide valuable experience about the integration of renewable energy sources with diesel generation in remote communities (BC Hydro Submission, pp. 12, 13).

BCSEA and CEC raise a concern that the price of electricity under the RCEP compared to the price of propane may lead to significant inappropriate fuel switching, such as a switch from propane space heating to electric space heating. BC Hydro responds that it will be investigating how to influence fuel choices made by customers and if appropriate, which strategies to pursue to manage fuel switching.

All parties support an abbreviated and streamlined regulatory process for future RCEP projects. BCSEA submits it would be premature to attempt to develop a more streamlined process before the Commission makes decisions on the Toad River Project and an application for electrification of a First Nation community. BCOAPO supports a formulaic approach that would provide a threshold for automatic approval of RCEP projects that meet certain criteria.

BC Hydro is interested in the concept of an exclusion regulation under section 45(4) of the Act, or a very streamlined review process. It proposes to hold informal discussions with interested parties and to report back to the Commission more or less concurrently with its next RCEP application, which is expected to be for a First Nations community.

COMMISSION DETERMINATION

The Commission Panel agrees that it would be premature to make determinations on the overall RCEP at this time. BC Hydro’s proposal to discuss a more streamlined regulatory process seems reasonable, and the Commission expects these discussions to consider the program objectives and structure as well. These discussions are expected to lead to the criteria that will identify RCEP projects that will qualify for a very streamlined review, or which will not require an application for a CPCN. At the same time, the Commission Panel anticipates that there may be RCEP projects that do not meet the criteria for a streamlined review, and which will require a regular CPCN application.

The Commission Panel recognizes that cost, such as cost per account served, is not a threshold for eligibility for the RCEP. At the same time, it is appropriate for BC Hydro to critically re-evaluate the quality of service and level of reliability it targets to provide under the program, and to control the cost of providing the service. Section 25 of the Act refers to service that is “reasonable, safe, adequate and fair”. The NIA service quality standard is one benchmark, but BC Hydro should also consider the quality of service experienced by remote customers who are connected to the grid. BC Hydro should also develop an assessment of the costs and benefits of somewhat lower service quality under RCEP, in terms of

impact on customers and on the cost of providing the service. Moreover, the Commission Panel requests that BC Hydro critically examine its internal cost of administering the RCEP, with a view to reducing these costs whenever possible.

The Commission Panel also expects that BC Hydro will continue to evaluate all options for providing electrical service to each remote community, and to select the most cost-effective option that provides adequate reliability. While cost-effectiveness also considers other factors, a key consideration is long term cost. As well as considering the effect of demand side measures, the analysis should include evaluation of generation that is available from renewable sources, and the use of distributed generation within a remote community.

The Commission Panel considers that the risk of inappropriate fuel switching appears to be a valid concern, particularly where the RCEP electricity is provided by diesel generation. Although Toad River will be the first RCEP community, the alignment of RCEP rates with NIA rates indicate that information from NIA communities may provide useful guidance as to whether this electricity rate promotes fuel switching to electricity or unduly hampers DSM efforts.

For the foregoing reasons, the Commission Panel concludes that the following directions are necessary for the efficient development and implementation of the RCEP.

BC Hydro is directed to monitor and report annually on demand side measures and electricity consumption at Toad River relative to an energy usage baseline established in 2009 for the Toad River Project, with the purpose of assessing the extent of fuel switching to electric energy and identifying tariff and other ways to prevent undesirable fuel switching.

BC Hydro is directed to establish as soon as reasonably possible a RCEP working group including stakeholders and First Nations representatives to develop a streamlined regulatory process for projects under the program.

BC Hydro is directed to file with the Commission a proposal for the streamlined regulatory review of RCEP projects, along with criteria defining acceptability of a project that will allow a simplified CPCN application and review for a project, or an exclusion from the requirement for BC Hydro to obtain a CPCN in most cases. The proposal will reassess the objectives of the RCEP in terms of quality and reliability of service, will review the options available to provide service including optimal use of renewable generation sources and distributed generation, and will revisit administration and other costs of the program with the intention of making the program as cost-effective as possible. BC Hydro will file the proposal within 60 days of the date the Commission releases its decision on the next application for a RCEP project.

BC Hydro is directed to file an annual report on the RCEP that includes communities and number of customers served, quantity of electricity delivered, renewable electricity initiatives and production, DSM programs and impact, and annual and cumulative capital expenditures and administration and other expenses and revenue. The annual report will include a three year forecast of costs and revenue.