



LETTER NO. L-106-09

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VIA E-MAIL

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November 27, 2009

Ms. Joanna Sofield
Chief Regulatory Officer
British Columbia Hydro and Power Authority
333 Dunsmuir Street
Vancouver, BC V6B 5R3

Dear Ms. Sofield:

**Re: British Columbia Hydro and Power Authority
Electricity Purchase Agreements – Generator Baselines**

On October 28, 2008, BC Hydro submitted a revised Electricity Purchase Agreement ("EPA") with Tembec Industries Inc. ("Tembec"), and the Commission by Order E-16-09 accepted the EPA for filing pursuant to section 71 of the *Utilities Commission Act*. The EPA identified an Annual Generator Baseline ("GBL") for the Tembec plant for the term of the contract. Three of the Bioenergy Call Phase 1 EPA's that BC Hydro filed on February 17, 2009 also had Annual GBL's. Also, documentation related to the Clean Power Call indicates that a GBL may be required where the customer has a generator that is or has been self-generating electricity.

Commission Order G-38-01 dated April 5, 2001 directed that Rate Schedule 1821 customers with idle self-generation could sell excess self-generated electricity, provided that the customer did not arbitrage between embedded cost utility service and market prices and BC Hydro was not required to supply increased embedded cost of service power to the customer. The Commission expected BC Hydro and the customer to agree on a GBL, based either on the historical energy consumption of the customer or the historical output of the generator. Order G-17-02 continued the conditions of Order G-38-01 until the Commission determines otherwise. The concepts expressed in Order G-38-01 in the context of near term power sales are now being applied to longer term EPAs.

The Ministry of Energy, Mines and Petroleum Resources addressed this matter in its Final Argument dated January 23, 2009 in the proceeding for the BC Hydro application to amend the Rate Schedule 3808 Power Purchase Agreement ("RS 3808 PPA") with FortisBC Inc. The Ministry stated that the Heritage Contract established by Heritage Special Direction No. HC2 provides that BC Hydro's ratepayers collectively receive the benefits of the Heritage low cost generation assets of BC Hydro. The Ministry concluded "While it is appropriate for self-generating customers to sell to market electricity that is in excess of load, consistent with Commission Orders G-38-01 and G-17-02, it is not appropriate for customers to profit by arbitraging between low cost heritage energy and market prices."

The Commission responded to the application to amend the RS 3808 PPA by Order G-48-09. On October 5, 2009, BC Hydro filed a report in compliance with Section 6.2 of the Decision accompanying Order G-48-09, which describes how BC Hydro determines a GBL on a case by case basis for each customer with self-generation who sells power.

The Commission notes that BC Hydro has developed Guidelines to determine a Customer Baseline Load ("CBL") for Rate Schedules 1823 and 1825. The CBL Guidelines are filed as Electric Tariff Supplement No. 74.

The Commission believes that it may be helpful and timely to develop guidelines for the establishment of GBL's, to assist efficiency and consistency in the determination and review of GBL's. Therefore, the Commission requests that as part of its next major EPA filing that involves GBL's or next Long Term Acquisition Plan filing, BC Hydro include draft Guidelines for the determination of GBL's. Attachment A to this letter identifies several questions related to the determination of GBL's, and the Commission requests that BC Hydro address these questions when it submits the draft GBL Guidelines and related discussion.

Yours truly,

Original signed by:

Constance M. Smith

for: Erica M. Hamilton

JBW/cms
Enclosure

cc: Mr. Dennis Swanson
Director, Regulatory Affairs
Regulatory Affairs Department
FortisBC Inc.

BC Hydro 2008 LTAP Intervenors
BC Hydro F2009/2010 RRA Intervenors
BC Hydro Amend s.2.1 RS3808 Intervenors

BRITISH COLUMBIA UTILITIES COMMISSION

British Columbia Hydro and Power Authority
Electricity Purchase Agreements – Generator Baselines

Questions regarding the Determination of Generator Baseline (“GBL”)

- 1.0 What is the relationship between Annual GBL and Hourly GBL? Which is derived from the other, and how is this calculation made?
- 2.0 Please provide definitions of Annual GBL, Hourly GBL and the terms used to define the relationship between them.
- 3.0 What are the role and function of Hourly GBL’s?
- 4.0 Are “low cost heritage energy” and “embedded cost of service power” essentially the same? What if any are the differences between them?
- 5.0 A “net-of-load” criteria that permits a customer with self-generation to sell power to BC Hydro only when and to the extent that the power is in excess of its hourly load would appear to be the most straight forward criterion to monitor – what are the pros and cons of a “net-of-load” criterion?
- 6.0 When does BC Hydro base the GBL on the historical energy consumption of the customer? Is this the customer’s current Customer Baseline Load? If not, how and over what time period is the historical consumption determined?
- 7.0 When does BC Hydro base the GBL on the historical output of the customer’s generator? What time period is used to define the historical output of the generator?
- 8.0 How is the calculation of the GBL affected if the customer has modified the capacity of its generator, or has commissioned/decommissioned generation? Does it matter whether the change to the customer’s generation occurred before or after the Heritage Contract came into effect in 2002?
- 9.0 What is the effect on the GBL calculation if the customer installs a new generator and maintains the old generator in a backup role? Are there any “be able to run”, minimum run time per year, or other criteria that determines that the old generator is properly considered to be backup?
- 10.0 Where an old generator and a new generator both exist at a facility, both generators pre-date Special direction No. HC2, and no GBL has been established previously, would a “net-of-load criterion apply? Please explain why or why not.
- 11.0 If the two bases for GBL in Order G-38-01 give different results, how does BC Hydro determine which GBL to use?
- 12.0 Once a GBL is agreed upon, how long does it stay in effect?
- 13.0 What would cause a GBL to change, and how would such a change be initiated and implemented?

- 14.0 When an EPA expires and the customer wishes to contract its excess power under a new EPA, is the GBL re-evaluated? If yes please explain the basis for the new GBL. If no, please explain why not.
- 15.0 When an EPA with a GBL expires, should the customer's GBL be retired, and a new GBL calculated using a "net-of-load" criterion if the customer wishes to enter into a new EPA?
- 16.0 How is the GBL established for a new customer with self-generation that wishes to sell power to BC Hydro? If the new customer would not be subject to a "net-of-load" criterion, please explain why not.
- 17.0 Where BC Hydro buys power from an industrial customer with self-generation that is outside the BC Hydro service area (e.g. from a customer of FortisBC Inc.), how is the historical GBL established?
- 18.0 Does BC Hydro plan to retire the historical GBL concept, and to replace it with a "net-of-load" criterion? If so, when?
- 19.0 Under the historical GBL concept, does BC Hydro consider that it is supplying embedded cost utility service while purchasing self-generated electricity from the same customer at market prices? Why or why not?
- 20.0 Please provide examples and diagrams showing how heritage energy is not supplied to a customer while BC Hydro is also purchasing electricity from the customer at market prices under an EPA that has a GBL. Please include the cash flows between parties for a Rate Schedule 1823 customer, and also provide the cash flows for an alternative scenario where the customer pays the Tier 2 rate for all power purchased.