



ORDER NUMBER
G-304-19

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

British Columbia Hydro and Power Authority
Department of National Defence
Tariff Supplement No. 95 Application

BEFORE:

R. I. Mason, Panel Chair
B. A. Magnan, Commissioner

on November 28, 2019

ORDER

WHEREAS:

- A. On September 30, 2019, the British Columbia Hydro and Power Authority (BC Hydro) filed an application with the British Columbia Utilities Commission (BCUC) seeking approval of a transition agreement (Transition Tariff Agreement) with the Department of National Defence (DND) as Tariff Supplement No. 95 (TS 95) pursuant to sections 58 to 61 of the *Utilities Commission Act* (Application);
- B. On January 13, 1999, the BCUC approved a special tariff agreement between BC Hydro and DND dated November 20, 1998 in the form of TS 41 pursuant to Order G-7-99. TS 41 allowed DND to take service under Rate Schedule (RS) 1821 (currently RS 1823) while being served at distribution voltage from BC Hydro's Esquimalt substation (ESQ). TS 41 had a term of 20-years, commencing on April 30, 1999;
- C. Prior to the expiry of TS 41, BC Hydro and DND entered into discussions regarding the Transition Tariff Agreement that is intended to mitigate bill impacts and recover incremental costs associated with serving DND prior to DND moving to BC Hydro's Large General Service RS 1611;
- D. To allow the parties more time for settling the terms of the Transition Tariff Agreement, the BCUC issued Orders G-88-19 and G-173-19, approving a short-term extension of TS 41, which allowed the parties to continue discussions (Extension). The Extension allowed BC Hydro to continue to bill DND in accordance with RS 1823 with a rate rider of \$0 until September 30, 2019, or if the Transition Tariff Agreement is filed prior to September 30, 2019, then the Extension will expire 30 days after the BCUC's order with respect to when the Transition Tariff Agreement is issued;
- E. In the Application, BC Hydro submits that an approved TS 95 would allow DND to continue to be billed under the transmission service rate per RS 1823, while receiving service at distribution voltage of 12.5 kV from ESQ. TS 95 includes a monthly rate rider charge and additional conditions to recover the incremental costs

associated with providing service to DND at distribution voltage which are not recovered in the transmission service rate;

- F. TS 95 does not allow for subsequent renewal at the end of the 10-year term and after such time DND will transition to the otherwise applicable rate schedule;
- G. On November 4, 2019, BC Hydro provided additional information by way of responses to BCUC staff questions;
- H. For safety and security reasons, BC Hydro requests that information filed regarding a detailed schematic of BC Hydro's substation facility and information about DND's individual electricity use be kept confidential pursuant to section 42 of the *Administrative Tribunals Act* and Part 4 of the BCUC's Rules of Practice and Procedure; and
- I. The BCUC has reviewed the Application, including the associated filings, and considers that approval of TS 95 is warranted.

NOW THEREFORE pursuant to sections 58 to 61 of the *Utilities Commission Act*, the BCUC orders as follows:

- 1. TS 95 is approved as filed, for the reasons as set out in Appendix A to this order.
- 2. The BCUC will keep the confidential version of the Application and BC Hydro's responses to questions confidential as they contain sensitive safety and security information.
- 3. BC Hydro is directed to refile TS 95 for acceptance by the BCUC within 30 days of the issuance of this order, in accordance with the terms of this order.

DATED at the City of Vancouver, in the Province of British Columbia, this *28th* day of November 2019.

BY ORDER

Original Signed By:

R. I. Mason
Commissioner

Attachment

British Columbia Hydro and Power Authority
Department of National Defence
Tariff Supplement No. 95 Application

REASONS FOR DECISION

On September 30, 2019, the British Columbia Hydro and Power Authority (BC Hydro) filed an application with the British Columbia Utilities Commission (BCUC) seeking approval of a transition agreement (Transition Tariff Agreement) with the Department of National Defence (DND) as Tariff Supplement No. 95 (TS 95), pursuant to sections 58 to 61 of the *Utilities Commission Act* (Application).

DND is a BC Hydro customer taking service at the Canadian Forces Base Esquimalt (Base). Prior to 1999, DND was a BC Hydro transmission service customer, taking service at the DND-owned Naden substation and billed under transmission service Rate Schedule (RS) 1821. In the late 1990s, BC Hydro identified an opportunity to retire a section of BC Hydro's transmission line and to allow DND to retire its Naden substation, thus benefiting both parties. BC Hydro had a long-term strategy to upgrade the South Vancouver Island transmission system which included the transmission line serving the Base, but due to slower than anticipated load growth in the Esquimalt area, BC Hydro's Esquimalt substation (ESQ) was underutilized and had excess transformer capacity that could be used to serve the Base for 20 years.¹

On January 13, 1999, the BCUC approved a special tariff agreement between BC Hydro and DND dated November 20, 1998 in the form of TS 41 pursuant to Order G-7-99. TS 41 allowed DND to continue to be billed under the transmission service rate schedule, RS 1821 (currently RS 1823), while taking service at the Base at distribution voltage from ESQ. TS 41 had a term of 20-years, commencing on April 30, 1999. The BCUC approved extensions for TS 41 by Orders G-88-19 and G-173-19.

In addition to enabling DND to pay the transmission rate for distribution-voltage service, TS 41 required DND to make an upfront payment to cover the cost of new equipment dedicated to DND, and DND's share of the cost of shared transformation equipment at ESQ, over the 20-year life of the tariff.²

In the Application, BC Hydro submits that based on BC Hydro's current load forecast, there is available transformation capacity at ESQ to continue to meet DND's load requirement for the next 10 years.³ If approved, TS 95 would allow DND to continue to be billed at the transmission service rate (RS 1823) while receiving service at distribution voltage from ESQ.⁴

TS 95 includes a monthly rate rider charge and additional conditions to recover the incremental costs associated with providing service to DND at distribution voltage, which are not recovered in the transmission service rate.

BC Hydro states, the rate rider:

¹ Exhibit B-1, pp. 1–2.

² Exhibit B-1, pp. 2–3.

³ Exhibit B-1, p. 3.

⁴ Exhibit B-1, p. 2.

...is to ensure that the Customer [DND] pays an amount that is estimated to recover the costs of operating the assets which it is using, thus seeking to ensure ratepayers do not bear the cost of this arrangement. The rider charge includes amounts for the Customer's [DND's] portion of maintenance, finance, amortization, tax and capital-related costs.⁵

TS 95 also contains a termination provision, which allows BC Hydro to terminate the agreement with two years' notice if the load for ESQ is approaching its transformation capacity.⁶

If TS 95 is not approved, BC Hydro submits that, based on recent billing history, moving DND to the applicable General Service rate, RS 1611, would result in a bill increase of about 20 percent for the customer.⁷ Approval of TS 95 would allow DND time to prepare for a change in billing from Transmission Service to General Service rates.⁸ TS 95 does not allow for a subsequent renewal.

BCUC Determination

Section 59 of the *Utilities Commission Act* states the BCUC must not approve rates which are "unjust, unreasonable, unduly discriminatory or unduly preferential." BC Hydro applies for a customer-specific rate schedule, TS 95, to allow it to provide service to DND at the Base at distribution voltage, but to bill DND under the transmission tariff, plus a rate rider. Because the proposed TS 95 rate for DND at the Base is cheaper than the general rate, DND would otherwise pay approximately 20 percent more, and the proposed TS 95 rate is unavailable to other customers taking service at distribution voltage; this is an issue for the Panel in deciding whether the proposed TS 95 rate is unduly discriminatory or unduly preferential.

By Order G-7-99, the BCUC approved TS 41 to allow BC Hydro to bill DND at the Base under the transmission rate while delivering service at distribution voltage for a 20-year period until April 30, 2019. In addition to paying the transmission rate, under TS 41, DND paid an upfront fee to cover the additional costs associated with using ESQ that were not recovered by the transmission rate. While Order G-7-99 did not provide reasons for decision, the Panel considers the upfront fee paid by DND was to mitigate the risk of cross subsidization of DND's cost by other ratepayers and therefore, to satisfy the condition that TS 41 was not unduly discriminatory or unduly preferential.

However, the arrangement set out in TS 41, while providing benefits to both BC Hydro and to DND during its term, has now come to an end. The upfront fee paid by DND ensured that other ratepayers were not unduly harmed during the 20-year term of the agreement, but the Panel considers that the upfront fee does not address the period following the expiry of TS 41. The Panel also considers the benefits accruing to both parties under TS 41 have now been fully earned, and both parties have been fully compensated by the other. There are no ongoing benefits to either party for which compensation needs to be made in TS 95.

In the proposed agreement, under TS 95, DND will pay a rate rider in addition to the transmission rate. After examining the evidence, the Panel finds the rate rider covers the additional costs of providing service to DND at the Base at distribution voltage from ESQ for the next 10 years that are not recovered in the transmission rate, and finds the risks associated with subsidizing DND by other ratepayers have been mitigated.

⁵ Exhibit B-1, p. 4.

⁶ Exhibit B-1, Attachment 2, p. 16.

⁷ Exhibit B-1, p. 7.

⁸ Exhibit B-1, p. 7.

For these reasons, the Panel finds that the proposed TS 95 rate is not unduly discriminatory or unduly preferential.

Having found that the proposed rate under TS 95 is not unduly discriminatory or unduly preferential, the Panel observes that BC Hydro anticipates excess capacity at ESQ for the 10-year period of the agreement, and that the Transition Tariff Agreement contains a provision for BC Hydro to terminate it with two years' notice if ESQ is approaching its maximum transformation capacity. Therefore, the Panel does not find there is any undue risk that other customers would be harmed by DND's use of ESQ under TS 95.

For all the foregoing reasons, **the Panel approves TS 95.**

Finally, the Panel notes TS 95 will expire in ten years, and there is no provision for its renewal. DND therefore has between two and ten years to prepare to transition to the General Service rate appropriate to its distribution-voltage service, depending on whether BC Hydro invokes the termination clause in the Transmission Tariff Agreement. DND is a sophisticated party, and in the view of the Panel, has sufficient time to make this transition prior to the termination of the agreement.