

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-110-10



SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC V6Z 2N3 CANADA
web site: <http://www.b cuc.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

**British Columbia Hydro and Power Authority
Large General Service Rate Application**

BEFORE:

A. A. Rhodes, Commissioner
M. R. Harle, Commissioner
R. J. Milbourne, Commissioner

June 29, 2010

O R D E R

WHEREAS:

- A. On October 16, 2009 British Columbia Hydro and Power Authority (BC Hydro) filed its Large General Service Rate Application (Application) under sections 58-61 of the *Utilities Commission Act* seeking orders establishing new energy rates for customers who take or would take service under Rate Schedules (RS) 1200, 1201, 1210, 1211 – General Service (35 kW and Over). These customers are referred to in the Application as BC Hydro's Existing Large General Service (ELGS) customers; and
- B. On October 19, 2010, the Commission issued Order G-125-09 to establish a preliminary regulatory timetable to review the Application (Exhibit A-1). The preliminary regulatory timetable included dates for a Workshop, a Procedural Conference, two rounds of Information Requests (IR) to the applicant BC Hydro and one round of IR on Intervener Evidence; and
- C. Following the Procedural Conference held on December 8, 2009, the Commission issued Order G-156-09 (Exhibit A-5) and determined that the regulatory review of the Application should proceed as an Oral Public Hearing to commence on March 29, 2010; and
- D. By letter dated February 15, 2010 (Exhibit B-13), BC Hydro filed an application for a reconsideration of Commission Order G-156-09 (Reconsideration Application). In the Reconsideration Application, BC Hydro sought an order varying Order G-156-09 to allow for a Negotiated Settlement Process (NSP). BC Hydro further requested that the Commission accept the Reconsideration Application on the merits of the request and avoid the usual two-step reconsideration process; and
- E. By letter L-13-10 dated February 17, 2010, the Commission allowed the Reconsideration Application to proceed as a single stage process (Exhibit A-9); and
- F. Five letters supporting BC Hydro's Reconsideration Application were received by the Commission and no letters opposing the Reconsideration Application were submitted. By Order G-31-10 dated February 25, 2010, the Commission varied Order G-156-09 to allow the regulatory review of the Application to proceed as an NSP to commence on March 29, 2010 (Exhibit A-10); and

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- G. By letter dated March 19, 2010 to BC Hydro and Interveners, the Commission Panel identified certain issues of concern that it considered parties should be aware of during the negotiations (Exhibit A-11); and
- H. An NSP was held on March 29, March 30, March 31, April 7, April 13, April 16 and April 19, 2010. A Negotiated Settlement Agreement (NSA) was reached among the participants except for one party, the British Columbia Sustainable Energy Association and the Sierra Club of British Columbia *et al.*; and
- I. The NSA was made public on May 14, 2010 and circulated to all Registered Interveners and the Commission. No comments were received from Interveners who had not participated in the negotiated settlement process; and
- J. The Commission Panel has reviewed the NSA and letters of comments from the participants and, after due consideration, considers that approval is warranted.

NOW THEREFORE for reasons stated in the Decision and attached as Appendix A, the Commission orders as follows:

- 1. The NSA dated May 10, 2010 and attached as Appendix B to this Order, is approved.
- 2. The tariff sheets as contained in Appendix T in the Application will be revised. BC Hydro is to file, within 30 days from the date of this Order, revised tariff sheets related to the Terms and Conditions for the approved Exempt General Service, Medium General Service, Large General Service and control group rates.
- 3. BC Hydro is to file, within 36 months of the Implementation Date of January 1, 2011, a report which addresses the issues as outlined in Paragraph 16 of the NSA.
- 4. BC Hydro is directed to demonstrate its compliance with section 58.1(6) and clarify its position on overall class revenue neutrality in its annual Cost of Service report to the Commission.

DATED at the City of Vancouver, in the Province of British Columbia, this 29th day of June 2010.

BY ORDER

Original signed by:

A. A. Rhodes
Panel Chair/Commissioner



IN THE MATTER OF

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY

APPLICATION FOR LARGE GENERAL SERVICE RATE

REASONS FOR DECISION

June 29, 2010

BEFORE:

A.A. Rhodes, Panel Chair/Commissioner
M.R. Harle, Commissioner
R.J. Milbourne, Commissioner

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1.0 INTRODUCTION

On May 14, 2010, a proposed settlement package for British Columbia Hydro and Power Authority's (BC Hydro) Application to amend the rate structure for its Large General Service class of customers was circulated to the British Columbia Utilities Commission (Commission) and all parties who intervened in the process. The package included the Negotiated Settlement Agreement itself, along with a number of letters in support and one letter opposing the settlement.

After due consideration of the Agreement, and the positions of the Applicant and Interveners, the Commission Panel approves the Negotiated Settlement Agreement.

2.0 BACKGROUND

BC Hydro applied to amend the rates for customers taking service under Rate Schedules 1200, 1201, 1210 and 1211, which customers make up what it describes as its Existing Large General Service (ELGS) class of customers, on October 16, 2009. In the Application, BC Hydro proposed to split the Existing Large General Service class into two classes, being the Large General Service class and the Medium General Service class. There are approximately 23,000 accounts in the Existing Large General Service class, although many customers have more than one account. BC Hydro proposed to include those accounts with monthly peak demand of 150 kW or more in the new Large General Service class and those with monthly peak demand between 35 kW and 150 kW in the new Medium General Service class. This proposal would result in there being about 5,000 Large General Service accounts and 18,000 Medium General Service accounts. (Exhibit B-1, p. 1-1)

The current rate design for the ELGS class involves a declining block energy rate where consumption above a certain amount (14,800 kWh) is charged at the lower "tier 2" rate of 3.70 cents/kWh. Consumption below this level is charged the higher "tier 1" rate of 7.69 cents/kWh. (Exhibit B-1, p. 1-5)

The purpose of the Application to amend the rate design is to encourage energy conservation.

Following a Procedural Conference on December 8, 2009, the Commission issued Order G-156-09, which provided for an Oral Public Hearing process to review the Application. The Oral Public Hearing was scheduled to commence on March 29, 2010.

By letter dated February 15, 2010, BC Hydro applied to the Commission for a Reconsideration of Order G-156-09 to allow for a Negotiated Settlement Process (NSP) to replace the Oral Public Hearing. In the event that the Negotiated Settlement Process did not result in a settlement, BC Hydro proposed to reserve the last two weeks in May to proceed with the Oral Public Hearing.

On February 25, 2010, the Commission issued Order G-31-10 whereby it replaced the dates for an Oral Hearing with a Negotiated Settlement Process. The Commission Panel noted in its Reasons that the NSP proposal had received the support of all Interveners who made submissions, including those who had initially expressed reservations as to the process at the December Procedural Conference.

On March 19, 2010, the Commission Panel issued a letter to BC Hydro and Registered Interveners whereby it identified certain "issues of concern" which it asked to be addressed. Those issues related to: (a) the requirement imposed by section 58.1(6) of the Utilities Commission Act that the commission not set rates for BC Hydro such that the revenue-cost

ratio, expressed as a percentage, for any class of customers increases by more than 2 percentage points per year when compared to the revenue-cost ratio for that class of customers immediately before the increase; and (b) the three rate design objectives of: Fair, Efficient, and Simple. (Exhibit A-11)

The Application proceeded by way of a Negotiated Settlement Process, which was held in Vancouver on: March 29, March 30, March 31, April 7, April 13, April 16, and April 19, 2010. In excess of thirty people attended, representing around a dozen parties.

The Commission Panel is not privy to the events of the Negotiated Settlement Process, other than as set out in the Negotiated Settlement Agreement and the letters of comment received from the parties.

3.0 NEGOTIATED SETTLEMENT AGREEMENT

The Negotiated Settlement Agreement (NSA) notes at the outset that the general intent of the NSA “is to maximize cost-effective customer efficiency and conservation incentives while minimizing unintended consequences to ELGS customers.” It also notes that both the new Medium General Service and Large General Service classes of customers will have two-part rate structures to signal the long-run marginal cost of new electricity supply, among other things.

Other highlights of the NSA include: an inverted rate structure such that consumption above a certain amount will be charged at a higher rate (up to the upper band limit), the calculation of historical baselines based on a three year rolling average with a provision for growth adjustment in situations involving a large increase in consumption of 30 percent or more in a given year and the ability of a customer to apply to the Commission to seek an increase in its historical baseline in circumstances where it expects a significant, permanent increase in energy consumption due to a significant capital investment in plant. (Negotiated Settlement Agreement, Section II, pp. 7-10)

It is also expressly acknowledged by the Parties to the NSA that they have “considered the Commission Panel issues articulated in Exhibit A-11; the requirements of the [Utilities Commission Act] including section 58.1(6); rate design principles as they would apply to the ELGS customer class, namely, the eight Bonbright rate design principles; and the nature of the very large and diverse ELGS customer base currently paying a steeply declining energy rate structure.” (Negotiated Settlement Agreement, Section I, para. 1, p. 4)

BC Hydro estimates that the settlement will achieve increased conservation of 300 GWh/year beyond that contemplated in the Application, which will translate into an additional avoided cost of approximately \$22 million per year. (Negotiated Settlement Agreement, Section III, para. 18 (a), (b), p. 12)

3.1 Commission Panel Issues of Concern – Exhibit A-11

A. Utilities Commission Act Section 58.1(6)

Section 58.1(1) of the Utilities Commission Act defines “revenue-cost ratio” as “the amount determined by dividing the authority’s revenues from a class of customers during a period of time by the authority’s costs to serve that class of customers during the same period of time.”

Section 58.1(3) states:

“The following decision and orders of the commission are of no force or effect to the extent that they require the authority to do anything for the purpose of changing revenue-cost ratios:

- (a) 2007 RDA Phase 1 Decision, issued October 26, 2007;
- (b) order G-111-07, issued September 7, 2007;
- (c) order G-130-07, issued October 26, 2007
- (d) order G-10-08, issued January 21, 2008,

and the rates of the authority that applied immediately before this section comes into force continue to apply and are deemed to be just, reasonable and not unduly discriminatory.”

Section 58.1(4), which prohibited the commission from setting rates for the authority for the purpose of changing the revenue-cost ratio for a class of customers, was repealed on March 31, 2010, by virtue of section 58.1(5).

Section 58.1(6) states:

“Nothing in subsection (3) prevents the commission from setting rates for the authority, but the commission, after March 31, 2010, may not set rates for the authority such that the revenue-cost ratio, expressed as a percentage, for any class of customers increases by more than 2 percentage points per year compared to the revenue-cost ratio for that class immediately before the increase.”

BC Hydro provides the following estimated current revenue-cost ratios for the ELGS class and the two proposed new classes as follows:

(i)	ELGS:	1.11
(ii)	MGS:	1.18
(iii)	LGS:	1.07

(Negotiated Settlement Agreement, Section III, para. (d), p. 12)

The parties to the NSA prepared a common response to the Commission Panel’s concerns.

With regard to the concern that the NSA not violate section 58.1(6) of the Utilities Commission Act, the parties to the NSA specifically acknowledged “that the denominators in the calculation of the revenue-cost ratios will increase as a result of the additional implementation costs and on-going administration costs of the new rate structures. Any other variations in the denominator or numerator are not expected to be material to the calculation of revenue to cost ratios.” They concluded that “overall, the effect of the new rate structures ... on revenue-cost ratios, regardless of the class... is to decrease them.” The Parties also noted the requirement that BC Hydro is obliged to file an updated “Fully Allocated Cost of Service” at the end of each fiscal year. (Negotiated Settlement Agreement, Section IV A, p. 13)

Commission Determination

The Commission Panel is concerned with the response of the parties to its issue of concern in respect of section 58.1 (6). The statement that “overall, the effect of the new rate structures described in this LGS NSA on revenue-cost ratios, regardless of the class to whom the costs are allocated, is to decrease them” would seem to violate one of the fundamental premises to the Application, being “class revenue neutrality”. This result follows because to accomplish an increase in the costs (denominator), without a corresponding increase in the revenues (numerator) to offset the cost increase would then require BC Hydro’s costs to be recovered through revenues from another class, not a party to the NSA.

However, the Commission Panel further notes that BC Hydro will be filing a Fully Allocated Cost of Service analysis at the end of each fiscal year. The Panel also notes that the Application contemplates class revenue neutrality for the new LGS class through the use of annual adjustments to the Part 1 Energy Rates to ensure class revenue neutrality. (Evidence of Lisa Coltart, p. 2-18) Further, the NSA contemplates ensuring class revenue neutrality for the new MGS class through annual adjustments to the higher Tier 1 rate (net of Class Average RateChanges) in the same manner, and also contemplates bill impacts within the MGS class. (Negotiated Settlement Agreement, Section I, p. 8)

Therefore, notwithstanding the above concern, the Commission Panel approves the NSA. BC Hydro is directed to demonstrate its compliance with section 58.1(6) and clarify its position on overall class revenue neutrality in its annual Cost of Service report to the Commission.

B. Rate Design Objectives: Fair, Efficient and Simple

The parties to the NSA take the position that all eight Bonbright rate design criteria are relevant to any rate design application and that the three noted by the Commission Panel as of concern were merely paraphrased by BC Hydro in its 2007 Rate Design Application as being the focus of that particular application. The parties note that the particular focus of the Large General Service Rate Application is the efficiency criterion. However, the NSA states that the parties “have endeavoured to create two new rate structures that are more efficient than the ELGS rate structure, and thereby incent conservation without unduly harming or benefitting customers, while balancing all eight Bonbright rate design criteria.” The parties further take the position that the rate proposals contained in the NSA, in their entirety, do a better job of satisfying the eight Bonbright criteria than does the ELGS rate structure. (Negotiated Settlement Agreement, Section IV B, pp. 13-14)

The eight Bonbright criteria as accepted by the Commission for BC Hydro are set out in Appendix G to the NSA, essentially as follows:

1. Recovery of the revenue requirement
2. Fair apportionment of costs among customers
3. Price signals which encourage efficient and discourage inefficient use
4. Customer understanding and acceptance
5. Practical and cost-effective to implement
6. Rate stability
7. Revenue stability
8. Avoidance of undue discrimination

Appendix G of the NSA explains in further detail how each of the above criteria is addressed.

For instance, the fact that the proposed rate structures agreed to by the parties to the NSA “are revenue neutral and will likely decrease the current revenue-cost ratio of the ELGS customers in aggregate” is said to address items (1) and (2) above.

The two-part rate structure for the new Large General Service class will expose those customers to the long run marginal cost of new energy supply, while the inversion of the declining block rate and the move towards a two-part rate in phases will achieve bill neutrality for the Medium General Service class. These elements of the rate design are said to address items (3) and (8) above.

The three-year rolling average historical baseline and the Price Limit Band elements of the NSA are said to mitigate bill volatility and provide rate stability, and hence accord with items (4) and (6) above.

It is thought that the rate structures from the NSA will increase conservation savings and implementation costs. The avoided cost of energy estimates indicate that the rate structures agreed to are cost-effective, in accordance with item (5) above.

Finally, as marginal cost pricing is thought to have the potential to cause revenue instability, there is an acknowledgment in the NSA that BC Hydro may need to seek a regulatory account mechanism. This is said to accord with item (7) above.

Commission Determination

The Commission Panel accepts that all eight Bonbright criteria are relevant and have been addressed in the NSA.

3.2 BCSEA-SCBC Dissent

The only parties involved in the NSP to object to the settlement are the BC Sustainable Energy Association and Sierra Club of British Columbia, which are represented together and considered as one (BCSEA-SCBC). BCSEA-SCBC has recorded its dissent as contemplated by the Commission’s NSP Guidelines.

Part IV, section 6 of the Guidelines provides:

“The right of parties to dissent from a proposed agreement is explicitly recognized by the Commission. If a party dissents, it can submit a written argument to the Commission panel. If the Commission panel is of the view that the dissent is reasonable and material, it may request written rebuttal argument or, where the settlement review process is to occur at an oral hearing, request argument at the oral hearing. If the dissent is determined to be reasonable and material, the dissenting party retains the right to present evidence and to cross-examine or to rebut the evidence of others if there is a written hearing.”

The BCSEA-SCBC dissent is contained in a letter to the Commission dated May 13, 2010. In its summary, BCSEA-SCBC states that while the NSA does improve upon the relief sought in the original Application by applying a two-part rate to the Medium General Service class and modifying the Part 1/Part 2 ratio for new accounts in the first year from 90%/10% (tier 1/tier 2) to 85%/15% (tier 1/tier2), it diminishes the conservation price signal, as compared to the Application, by increasing the number of eligible applications of the “Anomaly Rule”, adding a Growth Relief provision and including a provision which

would allow for a customer to apply to the Commission to alter its historical baseline. (BCSEA-SCBC Reasons for Dissent, p. 1)

BCSEA-SCBC argues that BC Hydro's rate design must pursue "all cost-effective DSM" and that the NSA falls short of this objective. (BCSEA-SCBC Reasons for Dissent p. 4) BCSEA-SCBC states that "[t]his follows because the government's energy objectives require public utilities such as BC Hydro to pursue all cost-effective DSM..." (BCSEA-SCBC Reasons for Dissent, p. 4)

BCSEA-SCBC points to the following problems or missed opportunities to improve the conservation price signal in the NSA:

The rolling average HBL [historical baseline] uses too short of a time period – ideally it should not change, but BCSEA-SCBC would support a ten-year average determination (as opposed to the three years proposed in the NSA) and notes that even a five-year period would substantially increase the conservation effect.

Any consumption above the upper price limit should not serve to increase the HBL, as the customer may have incentive to consume beyond the upper price limit to accomplish an increase in its HBL, particularly as consumption above the upper price limit reverts to the tier one rate (in order to prevent unacceptably large bill increases).

New accounts have advantageous treatment in that they receive an HBL based on their consumption in the previous year, whereas an existing account with an increase in consumption would only benefit by one third of the amount, due to the three-year rolling average HBL determination. BCSEA-SCBC suggests that a better treatment of new accounts would be to:

charge energy in the first year at a 75%/25% Part 2 split, and

start the HBL in the second year at 75% of the previous year's consumption, phasing in the HBL to the current consumption level over the number of years normally used for the rolling average HBL determination.

The two-tier structure should be imposed immediately rather than phased in over a three year period, as this treatment "severely blunts the conservation price signal."

(BCSEA-SCBC Reasons for Dissent, pp. 10-12)

Commission Panel Discussion

The Commission Panel acknowledges the position of BCSEA-SCBC as being consistent with economic theory. However, the Commission Panel notes that the rate design proposed in the NSA is, in fact, a marked variation from the existing design and does result in an estimated conservation of 1,798 GWh per year in F2015; 306 GWh per year more than that which would have resulted had the Application been approved as filed. (Negotiated Settlement Agreement, Appendix D, p. 2)

The Commission Panel accepts the comments of the Joint Industry Electricity Steering Committee that: “[t]he changes to the application contained within the NSA result in a reasonable rate structure which provides strong conservation rate signals, while still not punishing companies whose businesses are growing and expanding the economy of British Columbia.”

The Commission Panel also accepts that, although new customers may receive somewhat preferential treatment in rates in the early years, this treatment will not continue, as the new customer becomes an existing customer, with more years of consumption from which to develop a more accurate historical baseline. The Commission Panel accepts that there may need to be a trade off between ease of implementation and pure conservation, and that the rate design proposed, although a compromise, represents a practical solution.

The Commission Panel notes that the “government’s energy objectives,” which were in effect at the time of the NSP include the objective “to encourage public utilities to take demand side measures.” The new Clean Energy Act, the relevant provisions of which came into force on June 3, 2010, replaces the definition of government’s energy objectives with “British Columbia’s energy objectives”. (Clean Energy Act, ss.1 (1),2, 58,)

British Columbia’s energy objectives include the similar objective: “ 2 (b) to take demand-side measures and to conserve energy, including the objective of the authority reducing its expected increase in demand for electricity by the year 2020 by at least 66%.”

Objective (k) is also relevant. It states: “(k) to encourage economic development and the creation and retention of jobs.”

The Commission Panel notes that the provisions of the NSA are not severable. The Commission Panel is of the view that the NSA is compliant with the government’s energy objectives, as they existed, and British Columbia’s energy objectives as set out in the Clean Energy Act. The Commission Panel further agrees with the parties to the NSA that an acceptable compromise has been reached, notwithstanding that more, in theory, perhaps could be accomplished using a different structure which was not, however, agreed to by the parties to the NSA. In practice, in the Panel’s view, it is noteworthy that this compromise involved all the customer interests who chose to participate as well as the British Columbia Old Age Pensioners’ Organization *et al.*, representing the interests of BC Hydro’s residential ratepayers. In the Panel’s view the “buy in” of the participants is an important aspect of an NSP. Clearly the parties worked long and hard (7 days over a 3 week period) to achieve this result. The Commission Panel respects the time and effort invested by all the participants in coming to what it considers to be a reasonable and practical solution.

Commission Panel Determination

Pursuant to the above discussion, the Commission Panel does not consider the dissent put forward by the BCSEA-SCBC to be “reasonable and material” within the meaning of the NSP Guidelines and denies the BCSEA-SCBC the relief it seeks.

Accordingly, the Commission Panel approves the Negotiated Settlement Agreement as filed.

WILLIAM J. GRANT
Consultant TO BCUC
bill.grant@bcuc.com
web site: <http://www.bcuc.com>



SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 32694

VIA EMAIL

May 14, 2010

To: Registered Interveners
(BCH-LGSR-RI)

Re: British Columbia Hydro and Power Authority
Project No. 3698573/Order G-125-09
Large General Service Rate Application
Negotiated Settlement Agreement

Enclosed with this letter is the proposed settlement package for the British Columbia Hydro and Power Authority's Application for the Large General Service Rate Application (LGS Rate Application).

This LGS Rate Application settlement package is now public and is being submitted to the Commission and all Interveners. Also enclosed are Letters of Support and/or Comment received to date from the participants in the negotiated settlement process.

Prior to consideration by the Commission, Interveners who did not participate in the settlement negotiations will be requested to provide to the Commission their comments on the settlement package by Thursday, May 20, 2010. Thereafter, the Commission will consider the settlement package.

Yours truly,

A handwritten signature in cursive script, appearing to read "Eden Cheng".

For and on behalf of:
William J. Grant

EC/dg

Attachments

cc: Mr. Fred James
Manager, Rate Design and Tariff Implementation
British Columbia Hydro and Power Authority

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IN THE MATTER OF THE
Utilities Commission Act, R.S.B.C. 1996, Chapter 473, as amended (the UCA)
and
An Application by British Columbia Hydro and Power Authority (BC Hydro) regarding
Terms and Conditions of Service to its Large General Service Customers
(LGS Rate Application)

**LGS RATE APPLICATION
NEGOTIATED SETTLEMENT AGREEMENT (LGS NSA)**

MAY 10, 2010

WHEREAS:

- A. Under cover of a letter dated October 16, 2009 (Exhibit B-1), BC Hydro applied to the British Columbia Utilities Commission (Commission or BCUC) for approval of its LGS Rate Application pursuant to sections 58-61 of the UCA, and in particular sought orders approving the establishment of new energy rates for customers who take service under Rate Schedules (RS) 1200, 1201, 1210, 1211 – General Service (35 kW and over), referred to as Existing Large General Service (ELGS) customers, and consequential changes to BC Hydro's Electric Tariff;
- B. On November 5, 2009, BC Hydro filed Appendices S and T (Exhibit B-1-1) to the LGS Rate Application;
- C. By Order G-125-09 dated October 19, 2009 (Exhibit A-1), the Commission established a workshop with respect to the LGS Rate Application, held on November 6, 2009, and a procedural conference, held on December 8, 2009;
- D. On December 7, 2009, BC Hydro filed Appendix U (Exhibit B-1-2), Errata (Exhibit B-1-3), the Confidential Medium General Service and Large General Service Model Tool (Exhibit B-4-1) and amended the LGS Rate Application with regard to the applicability of the proposed rates to ELGS customers in Rate Zone 1B (Bella Bella);

- E. Following the procedural conference on December 8, 2009, by Order G-156-09 dated December 10, 2009 (Exhibit A-5), the Commission ordered an oral hearing in regard to the LGS Rate Application to commence on March 29, 2010;
- F. On February 1, 2010 the Commercial Energy Consumers and the BC Sustainable Energy Association interveners filed evidence in regard to the BC Hydro LGS Rate Application (Exhibits C1-5, C-17-4) and by March 2, 2010 had filed responses to information requests asked of them by the BCUC staff, BC Hydro and the other interveners (Exhibits C1-9, C1-10, C1-11, C1-12, C1-13 and C-17-8, C-17-9, C-17-10, C-17-11, C-17-12).
- G. On December 7, 2009; January 22, 2010; and February 12, 2010 BC Hydro filed responses to information requests asked of it by interveners and BCUC staff (Exhibits B-5, B-7 and B-12, respectively);
- H. By letter dated February 15, 2010 (Exhibit B-13), BC Hydro applied for reconsideration of Order G-156-09, pursuant to section 99 of the UCA, seeking an order to allow for a negotiated settlement process;
- I. By Order G-31-10 dated February 25, 2010 (Exhibit A-10), the Commission varied Order G-156-09, establishing a negotiated settlement process to commence on March 29, 2010, to be conducted in accordance with the Commission's *Negotiated Settlement Process – Policy, Procedures and Guidelines (January, 2001)*;
- J. By letter dated March 19, 2010, the Commission Panel identified certain issues of concern that parties to the negotiated settlement process should be aware of during the negotiation (Exhibit A-11);
- K. The following individuals participated in a negotiated settlement process held in the Commission hearing room on March 29, March 30, March 31, April 7, April 13, April 16 and April 19, 2010:

W. J. Grant

BCUC facilitator

E. Cheng

BCUC staff

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G. Isherwood	BCUC staff
A. Richter	BCUC staff
D. Flintoff	BCUC staff
G.A. Fulton, Q.C.	BCUC counsel
R. Stout	Joint Industry Electricity Steering Committee (JIESC)
B. Wallace	Counsel to the JIESC
C. Hiller	Counsel to the JIESC
L. Guenther	Consultant to the JIESC
D. Craig	Commercial Energy Consumers of British Columbia (CEC)
C. Weafer	Counsel to the CEC
J. Quail	Counsel to the British Columbia Old Age Pensioners <i>et al</i> (BCOAPO)
W. Harper	Consultant to the BCOAPO
T. Hackney	British Columbia Sustainable Energy Association and the Sierra Club of British Columbia <i>et al</i> (BCSEA)
W. Andrews	Counsel to the BCSEA
P. Chernick	Consultant to the BCSEA
L. Coltart	BC Hydro
S. von Minden	BC Hydro
F. James	BC Hydro
D. Hardy	BC Hydro
J. Gamache	BC Hydro
B. Steele	BC Hydro
J. Christian	Counsel to BC Hydro
M. Jasper	Counsel to BC Hydro
R. Orans	Consultant to BC Hydro
K. MacMillan	Pinnacle Pellet
S. Olsen	Pinnacle Pellet
S. Hill	Terasen Gas Inc.
D. Perttula	Terasen Gas Inc.

M. Jordan	Canfor
D. Clare	West Fraser Mills (West Fraser Timber Co. Ltd.)
A. Kim	West Fraser Mills (West Fraser Timber Co. Ltd.)
I. Wigington	Corix
D. MacLagan	B.C. Ferries
D. Peabody	B.C. Ferries

- L. BC Hydro and all the intervener participants except the British Columbia Sustainable Energy Association and the Sierra Club of British Columbia *et al.*, came to an agreement regarding the LGS Rate Application, as described further below, and are collectively referred to in this LGS NSA as “the Parties”, or individually as a “Party”; and
- M. Defined terms in this LGS NSA have the same meaning as in the LGS Rate Application.

NOW THEREFORE THE PARTIES AGREE AS FOLLOWS:

I. Context

1. In developing this LGS NSA, the Parties have considered the Commission Panel issues articulated in Exhibit A-11; the requirements of the UCA including section 58.1(6); rate design principles as they would apply to the ELGS customer class, namely, the eight Bonbright rate design principles; and the nature of the very large and diverse ELGS customer base currently paying a steeply declining energy rate structure. The general intent of this LGS NSA is to maximize cost-effective customer efficiency and conservation incentives while minimizing unintended consequences to ELGS customers. The Parties have agreed to a two-part rate structure for both the new MGS class and the new LGS class of customers to signal the long run marginal cost of new electricity supply, along with specific safeguards, a review after three years of operation, future investigation of demand charge changes and the appropriateness of an interruptible rate. The LGS NSA includes many tradeoffs and is, therefore, to be considered as a package.

The background to the LGS NSP is described in Appendix A.

II. LGS Rate Application

2. Subject to the following modifications, the Parties accept the LGS Rate Application as amended on December 7, 2009 (Bella Bella exemption). Parenthetical references are provided, where convenient, to the amended sections in Chapter 1 of the LGS Rate Application.

Segmentation of ELGS into LGS and MGS

3. In addition to those accounts with electricity demand at or above 150 kW, the LGS class will also include accounts with total energy consumption in excess of 550,000 kWh in any twelve month period, and upon an Implementation Date of January 1, 2011, in the period July 1, 2009 to June 30, 2010, about 1,000 extra accounts. (Amending sections 1.1 and 1.8.2 of the LGS Rate Application)
4. To make it more difficult to move out of the LGS class, an LGS account would move to the MGS class if it had 12 consecutive months of peak demand less than 100 kW *and* energy consumption less than 400,000 kWh in that same twelve month period. (Amending sections 1.6.1 and 1.8.2 of the LGS Rate Application)

Applicability of Two-Part Rate

5. A two-part rate structure as described in the LGS Rate Application, modified as set out below, will be applied to both MGS and LGS accounts, on the following schedule:
 - a. LGS: January 1, 2011 (Implementation Date);
 MGS: April 1, 2012: peak demand \geq 85 kW (about 4,000 accounts);
 April 1, 2013: peak demand \geq 55 kW (another 6,000 accounts);
 April 1, 2014: balance of MGS accounts (about 6,500 accounts).

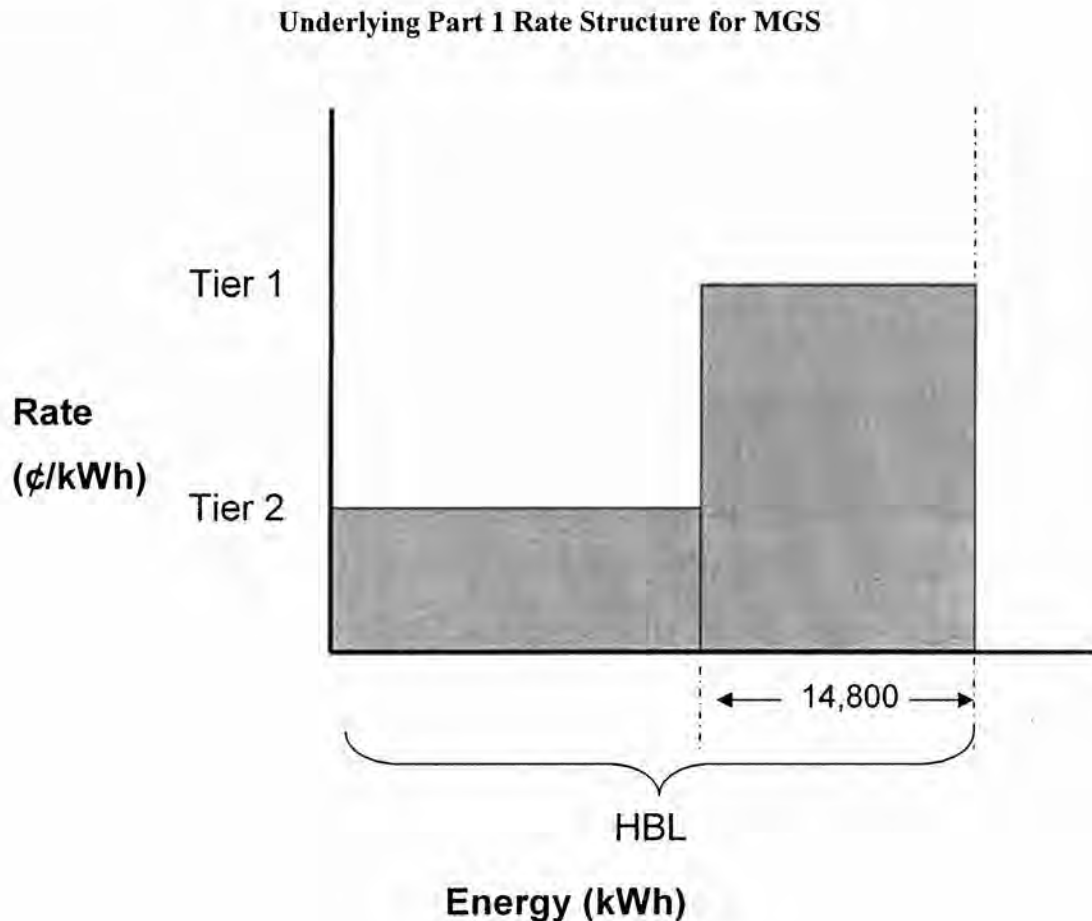
For greater certainty, the two-part rate structure applied to the MGS class would be the same in all respects as the two-part rate structure for the LGS class, except as noted herein. (Amending sections 1.4, 1.5.1 and 1.7.1 of the LGS Rate Application)

The two-part rate will apply on April 1, 2012 and April 1, 2013, to those MGS accounts with electricity demand at or above 85 kW and 55 kW, respectively, in the twelve month period ending September 30 in the previous year.

6. The Parties expressly acknowledge that implementing the two-part rate for MGS accounts may not be practicable, or may turn out to present an unacceptable risk to either BC Hydro or its customers. The Parties also expressly acknowledge that implementing the two-part rate for MGS accounts will cause BC Hydro to incur costs that are greater than as described in the LGS Rate Application, and that the estimates of costs arising from the implementation of the two-part rate for MGS accounts will be more speculative and uncertain. Finally, the Parties expressly acknowledge that actual MGS revenues have the potential to significantly vary from forecast MGS revenues under the two-part rate. Accordingly:
 - a. BC Hydro may at any time after June 30, 2011, in its sole discretion, apply to the Commission for orders altering the implementation schedule described in section 5 above, or amending the two-part rate in regard to some or all of the MGS accounts, or both;
 - b. no Party will challenge BC Hydro's need to incur implementation costs arising from the two-part rate implementation schedule described in section 5 above;
 - c. no Party will oppose any BC Hydro application for a regulatory account to record variances between actual and forecast MGS margin (difference between incremental revenue and cost of energy) for later recovery or refund (should BC Hydro apply for one); and
 - d. Nothing in paragraphs 6(b) or 6(c) prevents parties from challenging the level of implementation costs incurred, or BC Hydro's entitlement to recover amounts recorded in the regulatory account, respectively, in the normal course.

Part 1 Energy Rates for MGS

7. The underlying Part 1 energy rate structure for the MGS accounts will be changed such that as MGS accounts come onto the two-part rate structure in accordance with the schedule described in section 5 above (or Commission-approved amendments under section 6 a), the underlying Part 1 energy rate structure will be inverted, so that the higher Tier 1 rate applies to the last 14,800 kWh of energy consumption up to an account's monthly HBL, and the lower Tier 2 rate applies to all consumption up to HBL less 14,800 kWh, as shown in the figure below:



Where the monthly HBL is less than 14,800 kWh, all energy is charged at the higher Tier 1 rate (as it currently is under the ELGS rate structure). Appendix B provides sample bill calculations for MGS accounts. (Amending section 1.4 of the LGS Rate Application)

8. To reduce the difference between the Tier 1 and Tier 2 rates, and to maintain a reasonable difference between the higher Tier 1 MGS rate and the LRMC-based Part 2 rate, as described further in Appendix C, the lower Tier 2 MGS rate will be increased annually, subject to maximum forecast bill impacts for MGS accounts, before class average rate changes (CARC), as follows: (Amending section 1.7.1 of the LGS Rate Application)

- a. January 1, 2011 (Implementation Date): 2%
- b. April 1, 2011 (start of F2012): 2%
- c. April 1, 2012 (start of F2013): 4%
- d. April 1, 2013 (start of F2014): 4%
- e. April 1, 2014 (start of F2015): 4%

The higher Tier 1 MGS rate will be adjusted annually to maintain MGS class revenue neutrality, net of CARC from time to time, as proposed in the LGS Rate Application. “Class revenue neutrality” for the MGS class is captured in the “pricing principles” described at page 3-33 of the LGS Rate Application.

BC Hydro may at any time after April 1, 2011, in its sole discretion, and to account for any unforeseen consequences or circumstances, apply to the Commission for orders altering the annual Tier 1 and Tier 2 pricing adjustments described in this section. Other Parties may at any time in their sole discretion apply to the Commission for orders altering the proposed Tier 1 and Tier 2 pricing adjustments described in this section.

BC Hydro estimates that as a result of the Tier 1 and Tier 2 pricing adjustments described in this section that approximately 30% of MGS accounts will have adverse bill impacts (larger bills, under constant consumption) over the period January 1, 2011 to March 31, 2015 relative to the ELGS structure; that the average annual adverse bill impact over that period will be 1.4% (before CARC) relative to the ELGS structure; and that the cumulative bill impact for the most adversely affected MGS account would be no more

than 17% relative to the ELGS structure, or about 1/3 the cumulative bill impact for the most adversely affected MGS account under the flattening proposal in the LGS Rate Application (before CARC). As a result of the Tier 1 and Tier 2 pricing adjustments described in this section approximately 70% of MGS accounts will have smaller bills (assuming constant consumption), with an average annual bill decrease of approximately 1.5% (before CARC) relative to the ELGS structure.

Initial HBLs

9. Initial HBLs for LGS accounts on Implementation Date would be based on account history from the period January 1, 2005 to December 31, 2007, or the period July 1, 2007 to June 30, 2010, whichever three year period is the higher energy consumption period for that account (where applicable). (Amending section 1.7.2.1 of the LGS Rate Application) For greater certainty, the calculation of initial HBLs would be subject to the Anomaly Rule, as described in section 11.
10. Initial HBLs for MGS accounts transitioning to the two-part rate on each of April 1, 2012, 2013 and 2014 would be based on account history for the 36 month period (where applicable) ending September 30 in the previous year. For greater certainty, the calculation of initial HBLs would be subject to the Anomaly rule, as described in section 11.

Anomaly Rule

11. Up to 4 HBLs would be adjusted per year in accordance with the Anomaly Rule, and up to 2 HBLs from Implementation Date to the end of F2011 (March 31, 2011). (Amending sections 1.5.2.3 and 1.8.3 of the LGS Rate Application)

Growth Adjustment

12. HBLs would be based on the most recent two years of consumption history in the year (Y2) following a year (Y1) in which energy consumption exceeded the previous year's (Y0) energy consumption by at least i) 30% or ii) 4,000,000 kWh. For example, if kWh

in Y0 = 100k; kWh in Y1 = 150k; in Y2 the monthly HBLs would be the average of Y0 and Y1 monthly consumption.

Application for Prospective Growth Adjustment

13. Customers on a two-part rate who anticipate significant, permanent increases in energy consumption may apply to the BCUC to seek an increase in their HBLs, on a prospective basis. “Permanent” means arising from a significant capital investment in plant. “Significant” means increases in energy consumption totaling at least 30%, or 4,000,000 kWh. In addition, the customer’s application may address the electricity efficiency and/or GHG effect of the capital investment.

Application for Exemption

14. Customers may apply to the BCUC for an exemption from the applicable two-part rate on the basis that they are electricity re-sellers under regulated tariffs with conservation rates for their end-use customers.

New Accounts on a Two-Part Rate

15. The last 15% of energy consumed in a monthly billing period will be charged at the LRMC-based Part-2 energy rate rather than the Part-1 energy rates. (Amending section 1.5.2.1 of the LGS Rate Application).

Reporting

16. In a report to be filed by January 1, 2014 (i.e., within 36 months of the Implementation Date of January 1, 2011), BC Hydro will address:
 - a. whether the control groups are still adding value and, if not, a proposal to terminate them;
 - b. whether there is any evidence of customers opening new accounts to avoid exposure to the LRMC-based Part 2 rate under the two-part rate structure;

- c. whether BC Hydro will seek further amendments to the underlying Part 1 energy rate structure or pricing for the MGS class;
- d. implementation costs to date;
- e. estimated energy savings to date and the cost-effectiveness of the two-part rate structure;
- f. whether any changes or alternatives to the PLBs or 3-year rolling average HBLs are desirable or necessary; and
- g. generally, whether any elements of the LGS or MGS energy rate structures require further consideration.

For greater certainty, the 3-year report will not address the merits of extending a two-part rate to MGS customers. (Amending section 1.10.2 of the LGS Rate Application)

- 17. As part of its first time-of-use rate application, or before December 2012, whichever is sooner, BC Hydro will review the MGS and LGS demand charge rate structures and the impact of making changes, including the costs and benefits of offering an optional interruptible rate for LGS and MGS accounts. This review will include, at least, high-level consideration of potential rate designs, and will be done in consultation with customers and/or stakeholders.

III. Additional Supporting Information

- 18. The Parties accept that the following information from BC Hydro is accurate for the purposes of the LGS NSA:
 - a. conservation: the incremental conservation arising from the agreed-upon changes to the LGS Rate Application is estimated to be about 300 GWh/year, after phase-in (that is, total conservation is expected to increase from about 1,500 GWh/year in the LGS Rate Application to about 1,800 GWh/year), as

described in Appendix D. This estimate is based on about 1,400 GWh from the LGS accounts and about 400 GWh from the MGS accounts;

- b. avoided cost: the incremental gross avoided cost of energy arising from the agreed-upon changes to the LGS Rate Application would be no less than 300 GWh/year x \$73,600/GWh = about \$22 million/year (in addition to estimated gross avoided costs of about \$150 million/year in F2015 under the LGS Rate Application – see BC Hydro response to CEC IR 1.21.1 and Appendix E for further information);
- c. implementation costs: incremental implementation costs arising from the agreed-upon changes to the LGS Rate Application are estimated by BC Hydro to be between \$6 million and \$20 million (incremental on-going administrative costs after implementation are expected to be much lower) – see Appendix F for more information. BC Hydro will work with customers and/or stakeholders in supporting the implementation. Subject to paragraph 6(b), this estimate shall not be taken as *prima facie* evidence of a range of prudent expenditures by BC Hydro for the purposes of any future review by the Commission, nor in any way limit the ability of any intervener Party to challenge proposed or incurred implementation expenditures in any future proceeding before the Commission; and
- d. revenue-cost ratios: based on the F2009 FACOS filed with the Commission in December 2009, the current revenue-cost ratios are estimated as follows:

i.	ELGS:	1.11
ii.	MGS:	1.18
iii.	LGS:	1.07

IV. Exhibit A-11

- 19. On March 19, 2010 the Commission Panel issued Exhibit A-11 which outlines issues of particular concern to the Commission Panel regarding the LGS Rate Application and any negotiated settlement that arises from it. The following paragraphs document the common response of the Parties to the issues raised by Exhibit A-11. Parties are free to

elaborate on these issues in their submissions to the Commission regarding the LGS NSA.

A. Section 58.1(6) of the UCA: Section 58.1(6) of the UCA prohibits the Commission from approving rates that will have the effect of increasing the revenue-cost ratio of any class of customers by more than 2%.

The Parties acknowledge that the denominators in the calculation of the revenue-cost ratios will increase as a result of the additional implementation costs and on-going administration costs of the new rate structures. Any other variations in the denominator or numerator are not expected to be material to the calculation of revenue to cost ratios.

The Parties conclude that overall, the effect of the new rate structures described in this LGS NSA on revenue-cost ratios, regardless of the class to whom the costs are allocated, is to decrease them. Furthermore, the Parties note that BC Hydro is obliged to file an updated FACOS after the end of each fiscal year, pursuant to Commission Order G-130-07 in regard to BC Hydro's 2007 Rate Design Application.

It follows that section 58.1(6) of the UCA does not prohibit the Commission from approving the LGS NSA.

B: Rate Design Principles: The three rate design "principles" noted in item B of Exhibit A-11 were cited by BC Hydro in its 2007 RDA as a paraphrase of certain of the eight Bonbright rate design criteria that were the particular focus of that application. The particular focus of the LGS Rate Application is the efficiency criterion.

At page 58 of its decision regarding the 2007 RDA the Commission accepted that the eight Bonbright rate design criteria were the appropriate standards against which a rate design proposal ought to be measured. Nowhere in the 2007 RDA decision did the Commission accept, as implied by item B of Exhibit A-11, that the appropriate standards against which a rate design proposal ought to be measured are those of the eight rate design criteria that are the particular focus of an application.

At page 51 of its decision regarding BC Hydro's 2008 Residential Inclining Block rate application, the Commission reiterated that the Bonbright criteria provided the standards against which a rate proposal ought to be measured.

The Parties have endeavoured to create two new rate structures that are more efficient than the ELGS rate structure, and thereby incent conservation without unduly harming or benefiting customers, while balancing all eight Bonbright rate design criteria. A more detailed description of the merits of the LGS NSA rate proposal as measured against the Bonbright rate design criteria is included in Appendix G. It is the view of the Parties that the rate proposals contained in this LGS NSA, in their entirety, better satisfy the eight Bonbright rate design criteria than the ELGS rate structure.

V. General

20. The Parties will maintain in confidence all confidential discussions had in the course of negotiating the LGS NSA, unless disclosure is agreed to in writing by all Parties.
21. The LGS NSA represents a compromise reached on a "without prejudice" basis. None of the elements of the LGS NSA, positions taken during negotiations, or statements made during negotiations, will restrict in any way the positions that may be taken by any of the Parties in any future proceeding. All the Parties agree that they will not, in this or any other proceeding, cross-examine on or make submissions in regard to the reasons that any other Party entered into the LGS NSA or agreed to any of its elements.
22. None of the provisions of the LGS NSA are severable. If the Commission does not accept the LGS NSA in its entirety, there is no agreement among the Parties.

List of Appendices

- A. Background to the LGS NSA
- B. MGS Bill Calculations
- C. Maintaining a Difference Between MGS Tier 1 Rate and LRMC-Based Part 2 Rate

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- D. Conservation Estimates
- E. Avoided Cost of Energy
- F. Estimated Implementation Costs
- G. Bonbright Criteria

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Appendix A – Background to the LGS NSA

The rate structure for the Large General Service rate class has been in place since April 1, 1996 and the energy portion of the structure is a steeply declining block rate after the first 14,800 kWh per month.

On March 15, 2007 BC Hydro filed with the Commission the 2007 Rate Design Application (2007 RDA). In the 2007 RDA, BC Hydro proposed, among other things, a rate restructuring to flatten the energy rates for Large General Service customers, defined in that application as customers with demand at 35 kW and over. BC Hydro considered that the proposed three year phase-in provided an appropriate balance between sending more efficient price signals and mitigating the impact on adversely affected customers.

The proposed rate restructuring by BC Hydro was denied and the Commission directed BC Hydro to commence meaningful stakeholder engagement with its Large General Service customers, and to develop and file with the Commission an application for a rate structure or structures that encourages conservation without unduly benefiting or harming any of its customers in that class.

Following the Commission decision on the 2007 RDA, BC Hydro began the process of re-designing rates for the Existing Large General Service (ELGS) class in early 2008. The process included customer sessions, meetings with trade associations and additional one-to-one meetings with customers, or small groups of customers and/or stakeholders. BC Hydro filed a milestone report to the Commission in compliance with Order G-41-09 on August 31, 2009 and reported that it had completed the development of a final rate design for its LGS customers. On October 16, 2009 BC Hydro filed its LGS Rate Application in accordance with Commission Order G-41-09.

Commission Order G-159-09 dated December 10, 2009 ordered the review of the LGS Rate Application to proceed as an oral public hearing. In the intervening period between BC Hydro filing responses to Information Request No. 1 and Interveners filing responses to Information Request No. 1 on Intervener Evidence, representatives of the major ratepayer groups from JIESC, CEC and BCOAPO and the conservation interests group BCSEA *et al.* met informally with BC Hydro. These meetings led the Parties to believe that a negotiated settlement would be achievable. Consequently, a reconsideration request to vary G-159-09 was made by BC Hydro by letter dated February 15, 2010. On February 25, 2010, after a reconsideration process, the Commission issued Order G-31-10 which varied Order G-156-09 to allow the LGS Application to proceed as a Negotiated Settlement Process (NSP).

The LGS Rate Application proposed to split the ELGS class into two classes: the Large General Service (LGS) and the Medium General Service (MGS). The energy rate structure of customers

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in the LGS class would be a two-part rate based in individual historical baseline consumption whereas the MGS rate structure would be flattened over a six year phase-in.

In this LGS NSA, the Parties have agreed to rate structures that provide higher estimated conservation savings and lower bill impacts than those rate structures proposed in the LGS Rate Application.

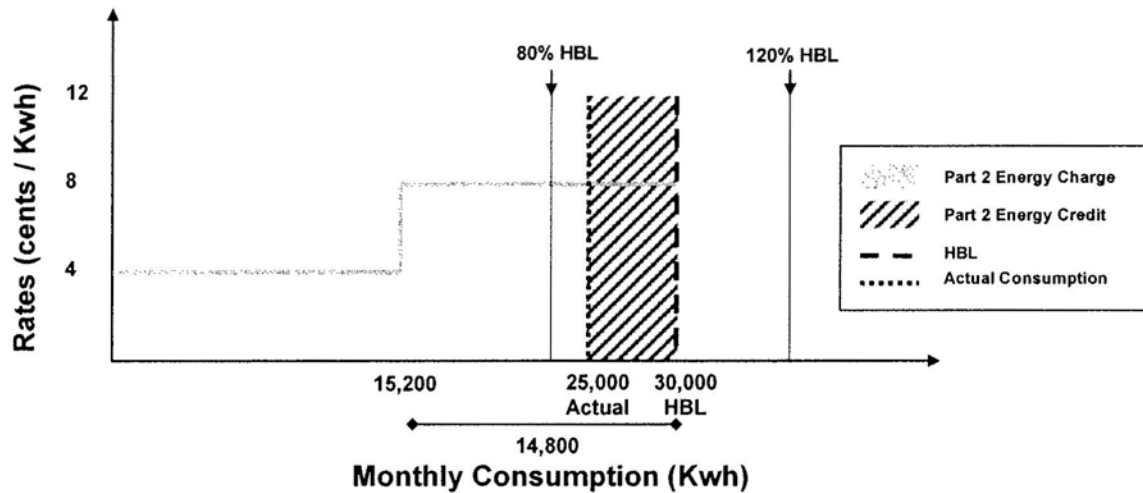
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Appendix B – MGS Bill Calculations

Appendix B provides illustrative examples of how the energy portion of MGS bills would be calculated under different consumption and baseline scenarios for accounts on the MGS two-part rate. The pricing used in these scenarios is illustrative and based on the following assumptions:

- Tier 1 Energy Rate = 8 cents/kWh
- Tier 2 Energy Rate = 4 cents/kWh
- LRMC-Based Part 2 Energy Rate = 12 cents/kWh

Scenario 1: Consumption Below HBL, Within Price Limit Band



Energy Charge Calculation Details

Scenario Details

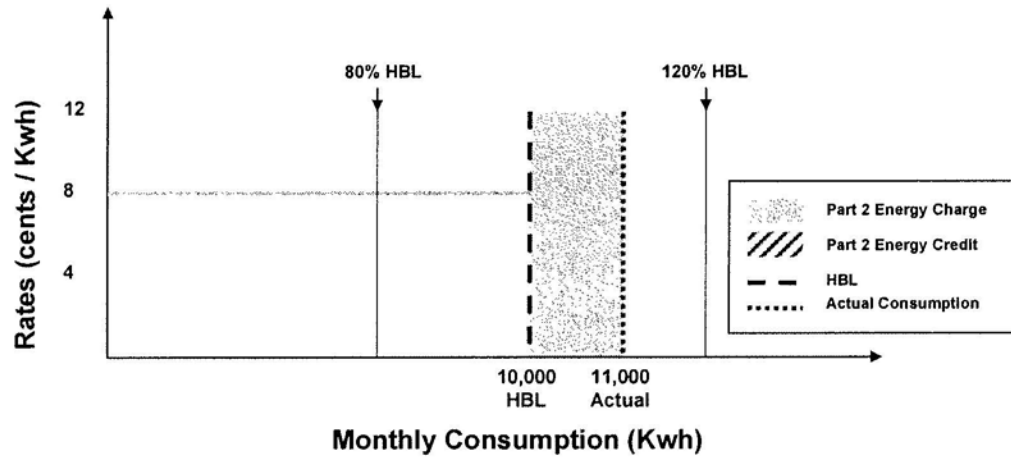
HBL	30,000 kwh
Actual consumption	25,000 kwh
Price Limit Band (PLB)	24,000 kwh

Rates (F13 Cents/kwh)

Tier 2 Energy Rate	4.00
Tier 1 Energy Rate	8.00
LPMC based Energy Rate	12.00
Minimum Energy Rate (Cents/kWh)	2.50

	breakdown (Kwh)	Energy Charge Calculations			
Change in consumption from HBL	-5,000 kwh				
Lower Bound of Price Limit Band (HBL - 20%)	24,000 kwh				
Customer T1/T2 threshold	15,200				
Part 1 Baseline Energy Charge:					
Tier 2 Energy Rate	15,200 kwh x	4.00 cents/kwh	=	\$608	
Tier 1 Energy Rate	14,800 kwh x	8.00 cents/kwh	=	\$1,184	
Part 2 Energy Credit:					
LPMC based Energy Rate (Within PLB)	-5,000 kwh x	12.00 cents/kwh	=	-\$600	
Tier 2 Energy Rate (Outside PLB)	0 kwh x	4.00 cents/kwh	=	\$0	
Tier 1 Energy Rate (Outside PLB)	0 kwh x	8.00 cents/kwh	=	\$0	
Total Energy (total of amounts above)					\$1,192
Minimum Energy Charge:					
Actual consumption x Minimum Energy Rate	25,000 kwh x	2.50 cents/kwh	=	\$625	
Resulting Energy Charge: Higher of Total Energy and Minimum Energy Charge					\$1,192

Scenario 3: Consumption Above HBL; Within Price Limit Band



Energy Charge Calculation Details

Scenario Details

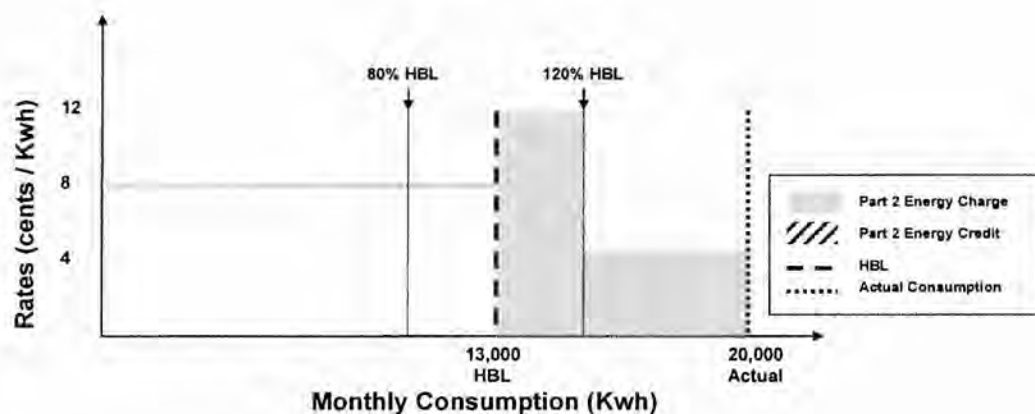
HBL	10,000 kwh
Actual consumption	11,000 kwh
Price Limit Band (PLB)	12,000 kwh

Rates (F13 Cents/kwh)

Tier 2 Energy Rate	4.00
Tier 1 Energy Rate	8.00
LRMC based Energy Rate	12.00

	Consumption breakdown (Kwh)	Energy Charge Calculations		
Change in consumption from HBL	1,000 kwh			
Upper bound of Price Limit Band (HBL + 20%)	12,000 kwh			
Part 1 Baseline Energy Charge:				
Tier 2 Energy Rate	0 kwh x	4.00 cents/kwh	=	\$0
Tier 1 Energy Rate	10,000 kwh x	8.00 cents/kwh	=	\$800
Part 2 Energy Charge:				
LRMC based Energy Rate (Within PLB)	1,000 kwh x	12.00 cents/kwh	=	\$120
Tier 2 Energy Rate (Outside PLB)	0 kwh x	4.00 cents/kwh	=	\$0
Tier 1 Energy Rate (Outside PLB)	0 kwh x	8.00 cents/kwh	=	\$0
Total Energy Charge (total of amounts above)				\$920

Scenario 4: Consumption Above HBL, Outside Price Limit Band



Energy Charge Calculation Details

Scenario Details		
HBL	13,000 kwh	
Actual consumption	20,000 kwh	
Price Limit Band (PLB)	15,600 kwh	

Rates (F13 Cents/kwh)	
Tier 2 Energy Rate	4.00
Tier 1 Energy Rate	8.00
LRMC based Energy Rate	12.00

	Consumption breakdown (kwh)	Energy Charge Calculations		
Change in consumption from HBL	7,000 kwh			
Upper bound of Price Limit Band (HBL + 20%)	15,600 kwh			
Part 1 Baseline Energy Charge:				
Tier 2 Energy Rate	0 kwh x	4.00 cents/kwh	= \$	0
Tier 1 Energy Rate	13,000 kwh x	8.00 cents/kwh	= \$	1,040
Part 2 Energy Charge:				
LRMC based Energy Rate (Within PLB)	2,600 kwh x	12.00 cents/kwh	= \$	312
Tier 2 Energy Rate (Outside PLB)	4,400 kwh x	4.00 cents/kwh	= \$	176
Tier 1 Energy Rate (Outside PLB)	0 kwh x	8.00 cents/kwh	= \$	0
Total Energy Charge (total of amounts above)				\$ 1,528

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Appendix C – Maintaining a Difference Between MGS Tier 1 Rate and LRMC-Based Part 2 Rate

Maintaining a reasonable difference between the higher Tier 1 energy rate and the LRMC-based Part 2 rate is desirable in order to send a consistent conservation signal under a two-part rate structure for the MGS class. This is particularly important for the MGS class since a large percentage of MGS accounts (about 30%) are smaller consumers and only see the higher Tier 1 energy rate. This is in marked contrast to LGS accounts who in almost all cases consume the large majority of their energy at the lower Tier 2 rate (see Figure 3-4 in the LGS Rate Application).

As illustrated in Table 1, if no changes are made to the underlying Part 1 energy rate structure for the MGS class, the higher Tier 1 energy rate is likely to encroach upon the LRMC-based rate in F2013. To maintain a reasonably consistent inclining block rate structure, a degree of shaping of the Tier 1 and Tier 2 energy rates is required.

Table 1 – MGS Rates without Shaping

Year	Tier 2 Energy Rate*	Tier 1 Energy Rate*	LRMC-Based Part 2 Energy Rate
F2011	3.94	8.18	6.68
F2012	4.14	8.61	6.68
F2013	4.47	9.28	9.42
F2014	4.83	10.03	11.37
F2015	5.15	10.69	13.31

*Rates are not tariff prices; they include CARC (& rate rider) – hence not a consistent increase from year to year in each case. All assumptions are as in the LGS Rate Application.

Shaping the underlying MGS rate structure, as outlined in paragraph 8 of the LGS NSA and illustrated in Table 2 below, will maintain a greater differential between the higher Tier 1 rate and the LRMC-based Part 2 rate, and will close the differential between the Tier 1 and Tier 2 energy rates.

Table 2 – MGS Rates with Shaping

Year	Tier 2 Energy Rate*	Tier 1 Energy Rate*	LRMC-Based Part 2 Energy Rate
F2011	4.12	8.10	6.68
F2012	4.55	8.42	6.68
F2013	5.21	8.59	9.42
F2014	6.22	9.18	11.37
F2015	7.34	9.68	13.31

*Rates are not tariff prices; they include CARC (& rate rider) – hence not a consistent increase from year to year in each case. All assumptions are as in the LGS Rate Application.

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Appendix D – Conservation Estimates

The LGS NSA describes a number of changes to the rate structures plus changes to the account population to whom the two-part rate will be applicable, relative to the LGS Rate Application. In aggregate, the changes outlined in the LGS NSA increase BC Hydro's estimate of expected conservation by approximately 300 GWh per year by F2015 (set out in paragraph 18 (a)), compared to the LGS Rate Application. The primary reason for the net increase in estimated conservation is that all ELGS accounts (MGS and LGS) are transitioned to a two-part rate by F2015, whereas the LGS Rate Application proposes to put approximately 5,000 of the largest ELGS accounts onto a two-part rate with the remaining accounts being phased into a flat energy rate over a 6-year period.

There are two reasons why the estimated increase in conservation is not larger. Although the two-part rate will be applied to many more accounts, these accounts are smaller energy consumers. For example, the 5,000 largest ELGS accounts represent approximately 73% of the energy consumption in the ELGS class, with the remaining ELGS accounts representing the remaining 27% of energy consumed by the ELGS class. Second, the LRMC-based Part 2 energy rate price signal provides a relatively small incremental incentive per KWh saved for many of the smaller ELGS accounts, who consume most of their energy at the higher Tier 1 energy rate.

For reference, the rate designs in the Application, using the methodology outlined in Appendix P of the LGS Rate Application, are expected to result in estimated conservation in F2015 of 1,296 GWh per year for the LGS accounts (on a two-part rate) and 196 GWh per year for the MGS accounts (being phased into a flat rate).

The same methodology (outlined in Appendix P of the LGS Rate Application) was used to estimate conservation that would arise from the changes made in the LGS NSA. The following three LGS NSA provisions impacted the incremental conservation estimate:

- Paragraph 3: approximately 1,000 additional ELGS accounts go onto the LGS two-part rate earlier as a result of the LGS NSA, which changes the initial segmentation basis such that accounts with > 550 MWh per year but < 150 kW become LGS accounts on the LGS two-part rate effective on the Implementation Date of January 1, 2011;
- Paragraph 5: the entire ELGS class goes onto a two-part rate as a result of the LGS NSA, which applies the two-part rate structure to all MGS accounts over 3 years; and
- Paragraph 8: reducing the magnitude and number of years of MGS Part 1 rate flattening (from six annual bill impact thresholds of CARC + 2%, 4%, 6%, 8%,

10%, 9% in the LGS Rate Application, to five annual bill impact thresholds of CARC + 2%, 2%, 4%, 4%, 4% in the LGS NSA).

Changing the segmentation rules increases the initial number of accounts in LGS from approximately 5,000 to 6,000, and increases the estimated LGS conservation in F2015 from 1,296 GWh to 1,373 GWh per year. This change also reduces the number of accounts in the MGS class by approximately 1,000, resulting in a slight decrease in the calculated MGS conservation from 196 GWh to 186 GWh per year in F2015. These two changes result in an estimated net increase in conservation of 67 GWh per year in F2015.

The combination of migrating all MGS accounts to the two-part rate and shaping the MGS Part 1 energy rates (set out in paragraph 8) results in the estimated MGS conservation increasing from 186 GWh to 425 GWh per year in F2015.

These proposed LGS NSA changes have increased the total estimated conservation in F2015 for the ELGS class from a total of 1,492 GWh per year, as outlined in the LGS Rate Application, to 1,798 GWh per year – a net increase of 306 GWh per year.

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Appendix E – Avoided Cost of Energy

Paragraph 18(b) of the LGS NSA sets out the incremental gross avoided cost of energy arising from the agreed-upon changes to the LGS Rate Application. BC Hydro has estimated the incremental gross avoided cost of energy as being no less than \$22 million per year, calculated as 300 GWh/year X \$73,000/GWh = \$22 million/year.

Appendix D discusses the incremental conservation of about 300 GWh/year arising from the LGS NSA.

The value of \$73,000/GWh is based on a long run marginal cost (LRMC) of 7.36 cents/kWh which is also the LRMC basis for the current Tier 2 rate of the Transmission Service Rate (TSR) stepped rate. In addition, 7.36 cents/kWh is the foundation for the current Step 2 rate of the Residential Inclining Block (RIB) rate (the Step 2 of the RIB rate has been adjusted upwards to 8.78 cents/kWh as of April 1, 2010 to account for line losses and interim F11 RRA increases). The 7.36 cents/kWh basis for LRMC pricing in both the TSR and RIB conservation rates was established from BC Hydro's F2006 Call for Tender process, and has not been adjusted for inflation to reflect current or future dollars.

The avoided cost of energy is said to be "no less than... \$22 million per year" to reflect the fact of the current but not yet complete Clean Energy Call, and the likelihood that it will result in an increase of BC Hydro's LRMC of new supply, and that regardless of the Clean Energy Call, the 7.36 cents/kWh is understated insofar as it has not been adjusted for inflation. That is, to the extent that the LRMC increases from 7.36 cents/kWh as a result of the Clean Power Call, or were to be adjusted for inflation, \$22 million per year is an understatement of the costs that will be avoided over time as a result of the changes to LGS Rate Application as a result of the LGS NSA.

The incremental avoided cost of energy of \$22 million is a "gross" cost because it does not account for any associated changes in revenues or costs other than the cost of new supply.

Paragraph 18(b) also references incremental gross avoided costs of about \$150 million per year under the LGS Rate Application, derived from BC Hydro's response to CEC IR 1.21.1. The \$150 million per year is BC Hydro's estimate of avoided cost of new energy supply arising from the rate proposals in the LGS Rate Application, before any allowance for associated changes in revenues or costs other than the cost of new supply.

The \$150 million/year and the \$22 million/year are not strictly comparable, or additive, because the \$150 million/year figure is based on an assumed LRMC of 12 cents/kWh in F2010 dollars, inflated to 13.31 cents/kWh in F2015 dollars rather than an uninflated LRMC from the F2006 Call for Tenders. Using the 13.31 cents/kWh as the applicable

LRMC yields an incremental gross avoided cost of the energy arising from the LGS NSA of about \$40 million/year ($300 \text{ GWh} \times \$133,100/\text{GWh} = \39.93 million), and gross avoided cost of the LGS Rate Application, as modified by the LGS NSA, of about \$190 million per year (\$150 million plus \$40 million = \$190 million).

BC Hydro LGS Rate Application Negotiated Settlement Agreement

Appendix F – Estimated Implementation Costs

Paragraph 18(c) of the LGS NSA sets out the estimated incremental implementation costs arising from the agreed-upon changes to the LGS Rate Application. BC Hydro has estimated the incremental implementation costs to be between about \$6 million and \$20 million. Incremental on-going administrative costs after implementation are expected to be much lower. This appendix provides background regarding these incremental implementation costs arising from the LGS NSA.

BC Hydro's estimated incremental implementation costs (shown in Table 1 below) arise from the LGS NSA commitment to implement two-part rates to all ELGS accounts over the period F2012 to F2015, on the schedule outlined in paragraph 5. Approximately 17,500 incremental accounts will go onto two-part rates as a result of the LGS NSA; about 11,000 of these are Small-Medium Business (SMB) accounts (those without an assigned BC Hydro Key Account Manager, and no usual contact with BC Hydro except through bills).

The largest increase in BC Hydro's estimated implementation costs relates to providing incremental SMB accounts going onto two-part rates with customer support regarding the new rate. The range of incremental customer support costs, in Table 1 below, reflects the uncertainty regarding the level of support incremental SMB accounts will require in order to understand the more complex two-part rate and their new bills. The cost range reflects different scenarios regarding SMB account call volumes and call duration, to be handled via a new call centre channel with agents focused specifically on supporting business accounts. Implementation of two-part rates to all ELGS accounts as a result of the LGS NSA is not expected to result in incremental costs in regard to key account customers, even as more of their accounts go onto LGS and MGS two-part rates.

Incremental implementation costs are also anticipated in the areas of:

Communications: to expand an SMB customer advisory panel for an extra year, change and deliver educational materials/tools for the MGS class, and communicate the two-part rate to the incremental accounts going onto the two-part rate structure;

Rate Management: to manage and monitor rate implementation, and manage escalated customer enquiries during the longer implementation period under the LGS NSA; and

IT/Billing Systems: to make additional changes to the billing system to enable automated HBL calculations, and to make required IT changes in each implementation year.

Table 1 – BC Hydro’s Estimated Implementation Costs

	LGS Rate Application (\$M) F2010 – F2013	Incremental Costs Arising From LGS NSA (\$M) F2010 – F2015	Total Costs for LGS & MGS Two-Part Rates (\$M) F2010 – F2015
Customer Support	2.7	2.7 - 17.3	5.4 - 20.0
Communications	1.1	0.9	2.0
Rate Management	No Additional	1.6	1.6
IT/Billing Systems	0.8	0.4	1.2
Total \$	\$4.6	\$5.6 - \$20.2	\$10.2 - \$24.8

It is apparent that the incremental implementation costs of the LGS NSA shown above are much less than the incremental avoided costs arising from the LGS NSA (Appendix E).

BC Hydro LGS Rate Application Negotiated Settlement Agreement

Appendix G – Bonbright Criteria

BC Hydro's rate design criteria, as documented in the Commission decision on the 2007 RDA Application, are:

1. Recovery of the revenue requirement
2. Fair apportionment of costs among customers
3. Price signals that encourage efficient use and discourage inefficient use
4. Customer understanding and acceptance
5. Practical and cost-effective to implement
6. Rate stability
7. Revenue stability
8. Avoidance of undue discrimination

These eight "Bonbright" criteria were accepted by the Commission in two decisions on rate design applications by BC Hydro: the 2007 RDA and the 2008 Residential Inclining Block Rate Application. In the 2007 RDA, BC Hydro also articulated its focus on "fair, efficient, and simple" rate design objectives.

In this LGS NSA, the Parties have agreed to rate structures that are revenue neutral and will likely decrease the current revenue-cost ratio of the ELGS customers in aggregate. The current revenue-cost ratios are estimated to range from 1.07 to 1.18. This element addresses items (1) and (2) of the eight criteria listed above.

The two-part rate structure for the LGS will expose customers to BC Hydro's long run marginal cost (LRMC) of new energy supply. The remaining customers in the MGS group will also move towards the two-part rate in phases and will at the same time have their current Part 1 declining block rate inverted so that the Part 1 rate becomes an inclining block rate. This element retains bill neutrality for the MGS customers and addresses items (3) and (8) of the eight criteria listed above.

The three year rolling average HBL and the PLB proposed in the LGS Rate Application have been adopted in the LGS NSA as these elements mitigate bill volatility and provide rate stability, addressing Items (4) and (6) of the eight criteria listed above.

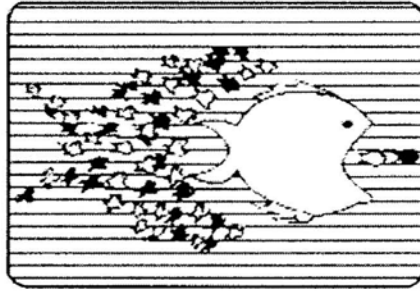
Based on BC Hydro's best estimates, the rate structures from the LGS NSA will increase both conservation savings as well as implementation costs. Based on the avoided cost of energy estimates, the agreed to rate structures are cost effective, addressing Item (5) of the eight criteria listed above.

Marginal cost pricing has the potential to cause revenue instability. This issue is addressed by acknowledging the possible need for BC Hydro to seek a regulatory account mechanism (paragraph 6(c)), addressing item (7) of the eight criteria listed above.

BC Hydro is required to address implementation costs and the cost-effectiveness of the rate structure, among other things, in its 36-month report. One of the purposes of the 36-month report is to address whether the LGS and MGS rate structures continue to satisfy the eight Bonbright criteria.

The British Columbia Public Interest Advocacy Centre

208-1090 West Pender Street
Vancouver, BC V6E 2N7
Coast Salish Territory
Tel: (604) 687-3063 Fax: (604) 682-7896
email: bcpiac@bcpiac.com
<http://www.bcpiac.com>



Valerie Conrad	687-3017
Sarah Khan	687-4134
Eugene Kung	687-3006
James L. Quail	687-3034
Ros Salvador	488-1315
Leigha Worth	687-3044

Barristers & Solicitors

Peggy Lee
Article Student

Our file: 7440

May 12, 2010

VIA EMAIL

Erica M. Hamilton
Commission Secretary
BC Utilities Commission
6th Floor - 900 Howe Street
Vancouver, BC V5P 2V5

Dear Mesdames/Sirs:

Re: BC Hydro Large General Service Rate Design

We continue to represent BCOAPO et al in this proceeding, in which our clients represent the interests of BC Hydro's residential ratepayers. We took an active role in the Negotiated Settlement Process on their behalf.

We are pleased to confirm that our clients consent to the terms of Negotiated Settlement Agreement Version 1.1, circulated by Ms. Cheng on May 12, 2010, being made an Order of the Commission.

Yours truly

BC PUBLIC INTEREST ADVOCACY CENTRE

Original in file signed by:

Jim Quail
Executive Director

cc: Eileen Cheng, Senior Economist, BCUC
parties of record

May 13, 2010

VIA EMAIL

Ms. Erica M. Hamilton
Commission Secretary
British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Box 250
Vancouver, B.C. V6Z 2N3

Dear Ms. Hamilton,

Re: BC Hydro LGS Rate Application Negotiated Settlement Agreement

We are pleased to confirm that Pinnacle Pellet Inc. endorses the terms of the final Negotiated Settlement Agreement Version 1.1, circulated by Ms. Cheng on May 12, 2010.

With regards to specific issues contained in the NSA, Pinnacle Pellet fully supports the three year rolling average HBL, the 80:120 Price Limit Band (PLB) around the customer HBL, and the inclusion of energy consumption over the 120 percent PLB in the calculating of a customer's HBL.

Pinnacle Pellet believes that the use of a three year rolling average of monthly kilowatt-hour, adjusted for anomalies, is both fair and reasonable. It is also the same time period that was used to initially determine the CBL's for BC Hydro Rate Schedule 1823 customers.

Pinnacle Pellet is convinced that the 120 percent PBL will send a significantly strong signal to plants that are planning to marginally expand their production. Pinnacle Pellet is planning an expansion in their Quesnel Plant that has had an average monthly energy consumption of 741,000 kilowatt-hours over the last 12 month billing periods. The expansion will result in an estimated energy consumption increase of 125,000 kilowatt-hours a month in Q3 of both 2010 and 2011. As a result of the expansion, Pinnacle Pellet will receive a purchased energy long run marginal cost (LRMC) signal through to the beginning of 2014. We believe that the level of this price signal and term of duration are reasonably balanced, with the customer receiving some LRMC pain over a four year period, while not significantly discouraging economic growth in British Columbia.

We also believe that is appropriate to consider the use of energy consumption over the 120 percent PLB in calculating the customer's HBL. As can be seen from the example above, the first 2010 increase falls within the 120 percent PLB while the 2011 increase falls outside the 120 percent PLB. We can see no reason for not including the energy consumption outside the 120 percent PLB in the calculation of a customer's HBL. To do so would simply send a clear message that economic growth was not wanted or desirable in British Columbia.

We wish to thank the BCUC staff, BC Hydro participants and other parties for the time and effort that was put into reaching the final Negotiated Settlement Agreement. It is regrettable, but not totally unexpected, that the BC Sustainable Energy Association and Sierra Club BC was unable to endorse the NSA. We are hopeful, that despite this setback, the BC Utilities Commission will approve this Negotiated Settlement Agreement.

Yours truly,



A. Kirke MacMillan, P.Eng.
Consultant to Pinnacle Pellet Inc.

cc: Eileen Cheng, BCUC



Canadian Forest Products Ltd.

and affiliated companies

May 13, 2010

FORESTRY & ENVIRONMENT

William J. Grant
Consultant to BCUC
c/o BCUC
6th floor, 900 Howe Street
PO Box 250
Vancouver, B.C.
V6Z 2N3

Dear Mr. Grant:

Re: NSA for BC Hydro's LGS Rate Application

Please be advised that Canfor supports the NSA and accepts the settlement as initially forwarded to Canfor by email on May 10, 2010 and reissued with one correction on May 12, 2010 (NSA Version 1.1).

In particular we endorse the following elements in the NSA:

- ☐ initial HBL's based on the higher of January 1, 2005 – December 31, 2007 and July 1, 2007 – June 30, 2010 account history
- ☐ 3-year rolling average monthly HBL's
- ☐ allowance for up to 4 HBL adjustments per billing year
- ☐ the 80/20 deadband and treatment of Price Limit Band overages
- ☐ the 4,000,000 kwh or 30% prospective growth triggers for permanent increases in energy consumption (although we would have preferred lower triggers)

Regards,
CANADIAN FOREST PRODUCTS LTD.

A handwritten signature in black ink, appearing to read "Michael Jordan".

Michael Jordan, P. Eng.
Director Environment, Energy
and Climate Change Policy

MAJ/

cc. Eileen Cheng, BCUC



1160 – 1188 West Georgia Street
Vancouver, BC
V6E 4A2
Tel: 604 697 6702
Fax: 604 697 6703

May 13, 2010

British Columbia Utilities Commission
#600 - 900 Howe Street, Box 250
Vancouver, B.C.
V6Z 2N3

VIA E-mail

Attention: Erica M. Hamilton, Commission Secretary

Dear Mesdames/Sirs:

**Subject: BCUC Project No. 3698573 – BC Hydro LGS Rate Application
Confidential Negotiated Settlement Agreement Version 1.1 (May
10, 2010)**

Corix Multi-Utility Services Inc. ("Corix") wishes to provide this letter of support for the above referenced Negotiated Settlement Agreement ("NSA") with comments on one particular aspect of the NSA.

Corix notes that the NSA contains the following Paragraph 14:

"14. Customers may apply to the BCUC for an exemption from the applicable two-part rate on the basis that they are electricity re-sellers under regulated tariffs with conservation rates for their end-use customers"

Assuming the Commission approves the NSA and prior to the proposed implementation date of January 1, 2011 for the new tariff, Corix intends to apply for such an exemption for the company's utility operations at Sun Rivers and Sonoma Pines as these utility operations will likely fall under the LGS category.

By way of background, Corix is regulated by the BCUC for the sale of electricity to its Sun Rivers and Sonoma Pines customers. As an authorized re-seller of electricity supplied by BC Hydro, Corix sets rates in an identical manner and level as BC Hydro for the equivalent class of customer. This includes the Residential Inclining Block ("RIB") rate for Corix's residential customers which represent over 90% of total electricity sales. As such, Corix has the same "conservation rates" in place as BC Hydro.

As the communities of Sun Rivers and Sonoma Pines continue to grow, Corix will require additional electricity purchased from BC Hydro – this will occur even if the electricity use per customer in these communities declines as intended with RIB rates. BC Hydro's current tariff precludes a re-seller from selling electricity at a rate higher than BC Hydro. Under the NSA, Corix will be subject to significant "Part 2" energy charges which will significantly reduce Corix's margin and erode the viability of these utility operations.

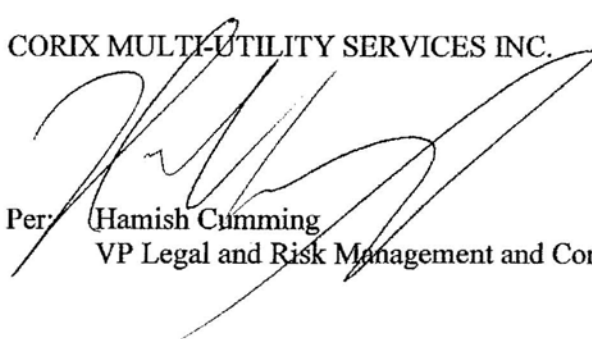
For transmission service, BC Hydro has rate schedules such as RS 1827 that exempt certain customers who are electricity re-sellers from the "stepped rate" nature of the transmission customer rate RS 1823.

Corix suggests that a similar rate schedule as that offered for transmission service could be developed for the proposed LGS rates currently before the Commission. The development of such a rate schedule would allow a re-seller such as Corix the opportunity to apply for and receive the exemption on a timely basis.

In summary, Corix supports the NSA however we suggest that the timing and implementation of an exemption as referred to in Paragraph 14 could be facilitated with the development of a rate schedule for exempt re-sellers. Re-sellers would then apply to the Commission to be exempt from the Part 2 rate by receiving service under this rate schedule.

Respectfully submitted,

CORIX MULTI-UTILITY SERVICES INC.

Per:  Hamish Cumming
VP Legal and Risk Management and Corporate Secretary

William J. Andrews

Barrister & Solicitor

1958 Parkside Lane, North Vancouver, BC, Canada, V7G 1X5
Phone: 604-924-0921, Fax: 604-924-0918, Email: wjandrews@shaw.ca

May 13, 2010

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC, V6Z 2N3
Attn: William Grant
By email: bill.grant@bcuc.com

Dear Sir:

Re: British Columbia Hydro and Power Authority,
BCUC Orders No. G-125-09, G-156-09, G-31-10,
Large General Service Rate Revision Application (LGS),
BCUC Project #3698573,
Negotiated Settlement Agreement,
BCSEA-SCBC Reasons For Dissent

This is on behalf of the intervenors B.C. Sustainable Energy Association and Sierra Club of British Columbia in response to your May 10, 2010 letter attaching "LGS Rate Application, Negotiated Settlement Agreement (LGS NSA), May 10, 2010, Version 1.1."

Summary

In summary, BCSEA-SCBC are unable to support the NSA. They ask that the Commission not endorse the NSA and that the Commission hold an oral hearing regarding the LGS Application.

The NSA improves on the Application by applying a two-part rate to the MGS class (in annual phases.) The NSA also makes a relative small improvement over the Application by changing the Part 1 / Part 2 ratio for new accounts in the first year to 85%/15% from 90%/10%.

On the other hand, the NSA diminishes the conservation price signal, compared to the Application, by doubling the number of eligible applications of the Anomaly Rule, adding a Growth Relief provision, and providing for a prospective HBL alteration upon application to the Commission.

BCSEA, *et al* favour fixed HBLs, that would be modified based on efficiency benchmarks or PowerSmart evaluation. However, if the HBLs are to be continuously adjusted on the basis of a rolling average of previous years' same-month consumption, then the NSA falls short of achieving all cost-effective conservation in four main respects:

1. Three years is too short a period for the rolling average HBL determination. It should be at least five years.
 2. Consumption above the Upper Price Limit should not contribute to an increase in the customer's HBL.
 3. New accounts should not have more access to Heritage power than existing accounts.
-

4. There should be no three-year phase-in of the LRMC-based price.

These conservation shortcomings can be rectified without offending the other Bonbright principles.

Background

BCSEA and SCBC are organizations whose membership includes BC Hydro ratepayers, mostly in the residential class. Their focus is on sustainable energy, energy efficiency and energy conservation in British Columbia.

BCSEA-SCBC intervened in this LGS proceeding to pursue the following issues:

- the efficacy of the proposed MGS and LGS rate structures in terms of conservation and efficiency and peak shaving,
- the bill impacts of the proposed rate structures, and associated 'rate shock' considerations,
- the potential for the proposed MGS and LGS rate structures to shift costs to other rate classes, and
- monitoring and reporting regarding implementation of the proposed MGS and LGS tariffs.¹

BCSEA-SCBC have participated actively in the LGS proceeding. On November 4, 2009, they made an Information Request No. 1 to BC Hydro.² On December 21, 2009, BCSEA-SCBC made IR No. 2 to BC Hydro.³ On February 1, 2010, they filed expert evidence prepared by Paul Chernick of Resource Insight Inc.⁴ On February 10, 2010, BCSEA-SCBC made an Information Request⁵ to the Commercial Energy Consumers (CEC) regarding evidence filed by the intervenor CEC. On March 1, 2010, BCSEA-SCBC filed responses to information requests from BCUC staff,⁶ BC Hydro,⁷ CEC,⁸ the Joint Industry Electricity Steering Committee,⁹ and BC Old Age Pensioners, et al.¹⁰

On February 5, 2010, BCSEA-SCBC met with representatives of BC Hydro, CEC, JIESC and BCOAPO for an informal discussion of the prospects for a Negotiated Settlement Process (NSP) under the Commission's *NSP Guidelines*¹¹ in this proceeding. Having heard the views expressed by the other parties at the February 5 meeting, and having discussed the matter in further detail with CEC, BCSEA-SCBC concluded that good faith negotiations of realistic modifications to

¹ Exhibit C17-1.

² Exhibit C17-2.

³ Exhibit C17-3.

⁴ Exhibit C17-4, C17-4-1.

⁵ Exhibit C17-5.

⁶ Exhibit C17-10.

⁷ Exhibit C17-8.

⁸ Exhibit C17-11.

⁹ Exhibit C17-12.

¹⁰ Exhibit C17-9.

¹¹ http://www.bcuc.com/Documents/Guidelines/NSPGuidelines_Jan2001.pdf.

BC Hydro's Application could achieve a modified proposal that would be supportable by BCSEA-SCBC in an NSA coming out of an NSP under the *NSP Guidelines*. Accordingly, BCSEA-SCBC wrote to the Commission¹² on February 15, 2010 expressing support for BC Hydro's request to the Commission on the same date for revision of Order G-156-09 to allow for an NSP in this proceeding.¹³

On February 25, 2010, the Commission issued Order G-31-10, amending the Regulatory Timetable to allow for an NSP in this proceeding.¹⁴ The NSP was to, and did, commence on March 29, 2010 at the Commission's hearing room on Howe Street in Vancouver. By letter of March 19, 2010, the Commission panel provided comments to guide the NSP participants.¹⁵

The NSP

BCSEA-SCBC participated actively in the NSP, being represented by case manager Tom Hackney, counsel William Andrews, and rate design expert Paul Chernick. The NSP proceedings took place over seven days: March 29, 30, 31, April 7, 13, 16, and 19.

At the end of the NSP on April 19, BCSEA-SCBC informed the other participants that they would be unable to support a Negotiated Settlement Agreement (NSA) in the terms then being discussed. BCSEA-SCBC did not have any role in the wordsmithing of the final NSA.

The positions expressed by the NSP participants are without prejudice and confidential, pursuant to the *NSP Guidelines*. Accordingly, to confirm, nothing in this letter discloses positions expressed by other participants during the NSP. This letter is in response only to the NSA itself.

An NSP participant's right to dissent from the majority opinion is an important safeguard in the *NSP Guidelines*. The Guidelines state:

6. The Right to Dissent

The right of parties to dissent from a proposed agreement is explicitly recognized by the Commission. If a party dissents, it can submit a written argument to the Commission panel. If the Commission panel is of the view that the dissent is reasonable and material, it may request written rebuttal argument or, where the settlement review process is to occur at an oral hearing, request argument at the oral hearing. If the dissent is determined to be reasonable and material, the dissenting party retains the right to present evidence and to cross-examine or to rebut the evidence of others if there is a written hearing. [p.6]

This submission is pursuant to BCSEA, *et al*'s right to dissent to the NSA.

¹² Exhibit C17-6.

¹³ Exhibit B-13.

¹⁴ Exhibit A-10.

¹⁵ Exhibit A-11.

The legal and policy context for the introduction of a conservation-oriented LGS rate structure

BC Hydro says that “The main reason we are applying to change the ELGS rate structure is to encourage energy conservation.”¹⁶ BCSEA-SCBC agree that encouraging energy conservation is, and ought to be, the main reason for changing the ELGS rate structure.

BCSEA-SCBC agree with BC Hydro’s exposition of the legal and policy sources of the energy conservation objective of the LGS Rate Revision Application,¹⁷ as far as it goes. BC Hydro cites:

- *The BC Energy Plan: A Vision for Clean Energy Leadership*, February 22, 2007. 2007 Energy Plan,
- *Energy for Our Future: A Plan for BC*, released November 25, 2002,
- BCUC decision dated April 24, 1992, re: BC Hydro Rate Design Application, at pages 33-34, and
- BCUC decision dated October 26, 2007 re: BC Hydro Rate Design Application, Phase 1, at page 163 (2007 RDA).

BC Hydro states:¹⁸

Some elements of current provincial energy policy have been translated into specific requirements for energy utilities, including BC Hydro. For example, BC Hydro must now file resource plans with the BCUC that identify demand side management measures they will use to encourage conservation, where “demand side measures” includes conservation rate structures. This implies that BC Hydro has to develop rate structures that encourage conservation. [underline added]

In addition, BCSEA-SCBC say that BC Hydro’s conservation-oriented revised ELGS rate structure must be designed to pursue *all cost-effective DSM*. This follows because the government’s energy objectives require public utilities such as BC Hydro to pursue all cost-effective DSM,¹⁹ which the Commission was required by s.44.2(5)(a) of the *Act* to consider when it accepted BC Hydro’s DSM expenditure schedule, including expenditures on the conservation-oriented revisions of the ELGS rate structure, in the course of the 2008 LTAP proceeding.

For the reasons set out below, BCSEA, *et al* believe that the rate designs proposed in the Application and in the NSA do not achieve all cost-effective DSM, and represent very small and ineffectual efforts in terms of achieving the legal mandate for conservation-oriented rate structures.

¹⁶ Exhibit B-1, A6, p.2-4.

¹⁷ Exhibit B-1, A6, p.2-4, *et. seq.*

¹⁸ Exhibit B-1, A6, p.2-4.

¹⁹ A conservation-oriented revised ELGS rate structure is a “demand-side measure” (DSM) as defined in the *Utilities Commission Act*, s.1.

How the NSA compares to the Application

The following are the major ways in which the rate design proposed in the NSA compares to the rate design proposed in the Application.²⁰

- Both the NSA and the Application contemplate splitting the ELGS class into an LGS class and an MGS class. The Application drew the line at 150 kW of customer demand, above which accounts were in the LGS. The NSA retains that criterion but adds an energy-based criterion such that accounts with total energy consumption of greater than 550,000 kWh in any 12-month period are in the LGS. This would add about 1,000 accounts to the LGS. [NSA, s.3]
- The NSA applies a “two-part” rate design (of the type applicable to the LGS class) to three successive tranches of MGS²¹ customers, phased in on a yearly basis on April 1, 2012, 2013 and 2014. [NSA, s.5] In contrast, under the Application, MGS customers would not be subject to a two-part rate; instead the existing (ELGS) declining block rate structure would be flattened over six years.²² To clarify, under the NSA, MGS accounts that are not yet on a two-part rate would continue to be on the existing declining block rate structure.²³
- In the NSA, the Part 1 rate structure is changed for those MGS customers (though not LGS customers) to which a two-part rate is applied. [NSA, s.7] The *status quo* is that the first 14,800 kWh/m is charged at the high Tier 1 rate and any additional energy is charged at the low Tier 2 rate.²⁴ However, under the NSA, for MGS accounts to which a two-part rate applies, the underlying Part 1 rate structure is an ‘inverted’ version of the *status quo* declining block structure. Where a customer’s monthly HBL is greater than 14,800 kWh, the customer’s Part 1 charge equals the sum of 14,800 kWh at the high Tier 1 rate and the remainder (HBL – 14,800 kWh) at the low Tier 2 rate. Where a customer’s monthly HBL is equal to or less than 14,800 kWh, the Part 1 charge is simply the amount of the HBL at the high Tier 1 rate. There is no corresponding provision in the Application, because the Application does not provide for a two-part rate structure for the proposed MGS class.

²⁰ For simplicity, these items are worded for identification. The details are complex and the NSA and the Application should be consulted for the official wording.

²¹ In this discussion, the terms ELGS, LGS and MGS are used as in the Application, that is, ELGS refers to the Existing LGS customer class, MGS refers to the proposed new Medium General Service customer class, and LGS refers to the proposed new Large General Service customer class.

²² The Application says that BC Hydro would address in a three-year report whether a two-part design could be applied to the MGS class. Exhibit B1, A49, p.3-44.

²³ Also, note that the existing declining block rate structure would continue to apply to LGS accounts in the form of (a) the Part 1 rate for the HBL and (b) the portion of the Part 2 rate applicable to consumption outside of the PLB (i.e., credit for consumption below the Lower Price Limit and charge for consumption above the Upper Price Limit).

²⁴ The terms “high Tier 1” and “low Tier 2” are used as a reminder of the relative size of the rate, since their order of application is reversed for MGS customers that come under a two-part rate.

- In the NSA, the inverted high Tier 1 and low Tier 2 rate structure also applies within the Part 2 rate for consumption below the Lower Price Limit,²⁵ for MGS accounts to which the two-part rate structure applies.²⁶ That is, the credit for consumption below the Lower Price Limit is at the LRMC-based rate for (non-)consumption between the HBL and the LPL, at the high Tier 1 rate for (non-)consumption between the LPL and the Tier 1/Tier 2 cutoff (i.e., HBL–14,800 kWh), and at the low Tier 2 rate for (non-)consumption below the Tier 1/Tier 2 cutoff. [NSA, Appendix B, Scenario 2]
- In the NSA, the inverted high Tier 1 and low Tier 2 rate structure does *not* apply within the Part 2 rate for consumption *above* the Upper Price Limit, for MGS accounts to which the two-part rate structure applies. In this situation, consumption between the HBL and the UPL is charged at the Part 2 LRMC-based rate, and consumption above the UPL is charged at the low Tier 2 rate. [NSA, Appendix B, Scenario 4]
- In the NSA, the MGS²⁷ high Tier 1 and low Tier 2 rates are ‘shaped’ to reduce the difference between them over time. The low Tier 2 rate is increased by certain percentages annually (2% on January 1, 2011 and on April 1, 2011; and 4% on April 1, 2012, 2013, and 2014). And the high Tier 1 rate is adjusted annually to maintain MGS class revenue neutrality. The purpose is to maintain a gap between the Part 2 LRMC-based rate (charge or credit for consumption above or below HBL and within the PLB) for MGS customers to which a two-part rate applies and the Part 1 high Tier 1 price.²⁸ [NSA, s.8]
- In the NSA, the “two-part” rate design, applicable to the new LGS class and to successive tranches of MGS customers, *remains the same* as the two-part rate design for LGS customers in the Application in the following respects:
 - Customers’ monthly HBLs²⁹ are revised annually based on a rolling average of previous same-month consumption; i.e., the HBLs are not *fixed*.
 - The HBL revision is based on a *three*-year rolling average of same-month consumption in the previous *three* years (for existing accounts).

²⁵ Recall that the Part 2 LRMC-based rate applies to consumption *within* the PLB (as a charge where consumption exceeds the HBL and as a credit where consumption is less than the HBL); and that the Part 2 rate also includes high Tier 1 and low Tier 2 rates that apply as charges or credits for consumption above or below the PLB respectively.

²⁶ For the LGS accounts, the Part 1 rate (high Tier 1 and low Tier 2) is not inverted and the Part 2 rates for consumption outside of the PLB (i.e., Tier 1 and Tier 2) are not inverted either.

²⁷ The wording of the NSA is not entirely clear, but it is understood that the shaping of the Part 1 Tier 1 and Tier 2 rates applies to the new MGS class but not to the LGS class.

²⁸ It is understood (based on class revenue neutrality) that the shaped Part 1 Tier 1 and Tier 2 prices are to be applicable to *all* MGS accounts, including those to which a two-part rate does not yet apply. However, it is not clear that this is stated explicitly in the NSA. Also, note that the shaping of Tier 1 and Tier 2 prices for MGS accounts does not occur with Tier 1 and Tier 2 prices for LGS accounts. So, the Tier 1 and Tier 2 prices for MGS and LGS accounts, respectively, would diverge over time.

²⁹ HBL refers to Historic Baseline Load, a set of 12 monthly energy consumption figures unique to each customer.

- A Price Limit Band (PLB) is in place, such that monthly consumption above the Upper Price Limit is priced at the equivalent of the Part 1 rate structure and consumption below the Lower Price Limit is subject to a credit at Part 1 rates.³⁰
- The PLB is at 80% and 120% of HBL in both the NSA and the original Application.
- All consumption above the HBL contributes to a revision of the HBL in succeeding years (via the rolling average mechanism). This includes consumption that exceeds the Upper Price Limit even though such energy is charged at the Part 1 rate. Similarly, all consumption below the HBL contributes to a (downward) revision of the HBL in succeeding years. And this includes consumption below the Lower Price Limit even though such energy is credited at only the Part 1 rate.
- Energy consumption by *new accounts* (sometimes referred to, less accurately, as new customers) is priced in the first year at a certain percentage [85% in the NSA, 90% in the original Application] of monthly consumption at Part 1 rates and the remaining percentage of monthly consumption at Part 2 rates.
- New accounts in the second year receive an HBL equal to 100% of monthly consumption in the first year. In the third year, new accounts' HBL is calculated as a simple average of the year one and year two monthly consumption figures.
- The Two-Part design in the NSA *differs* from the Two-Part design in the Application in the following respects:
 - In the NSA, initial HBLs for LGS accounts are based on account history from the period calendar 2005-2007, *or* the period July 1, 2007 to June 30, 2010, whichever three year period is higher. [NSA, s.9] In the Application, initial HBLs for LGS accounts are based on the period calendar 2005-2007.
 - In the NSA, initial HBLs for MGS customers starting on a two-part rate on April 1, 2012, 2013 and 2014 are based on account history for the 36 month period ending September 30 of the year prior to the April 1 start date. [NSA, s.10] In the Application, there is no provision for a two-part rate to be applied to MGS customers (instead, the declining block rate structure is flattened for MGS customers).
 - In the NSA, up to four monthly HBLs would be adjusted per year in accordance with the Anomaly Rule [NSA, s.11], compared to up to two HBLs in the Application.
 - The NSA includes a “growth adjustment” provision that is not in the Application. Under the growth relief provision, HBLs would be based on the most recent two

³⁰ For LGS customers (all of which have a two-part rate), the Part 1 rate is ‘un-inverted’ and the Part 2 rates for consumption outside of the PLB are at the equivalent of the ‘un-inverted’ Part 1 rates. For MGS customers with a two-part rate, the Part 1 rate is ‘inverted,’ the Part 2 credit for consumption below the Lower Price Limit is at the equivalent of the ‘inverted’ Part 1 rates, and the Part 2 charge for consumption above the Upper Price Limit is at the equivalent of the ‘un-inverted’ Part 1 rates.

years of consumption history in the year (Y2) following a year (Y1) in which energy consumption exceeded the previous year's (Y0) energy consumption by at least 30% or 45,000,000 kWh. [NSA, s.12]

- The NSA includes a provision for “permanent increases in energy consumption” that is not in the Application. Under this provision, a customer on a two-part rate anticipating “significant, permanent increases in energy consumption” could apply to the BCUC for an increase in its HBL prospectively. [NSA, s.13]
- The NSA includes a provision, not in the Application, under which resellers could seek an exemption from the BCUC to the applicable two-part rate where their end-use customers are on a conservation rate. [NSA, s.14]
- The NSA includes a provision called “MGS two-part rate risk mitigation” [NSA, s.6] that does not exist in the Application. This provision acknowledges that the cost of implementation of a two-part rate structure to successive tranches MGS customers will be higher and more uncertain than the cost of the Application's MGS rate flattening approach. This provision also says that the actual MGS revenues may vary from forecast MGS revenues more than with the rate-flattening approach in the Application. The NSA provides that BC Hydro may apply to the Commission to revise the implementation schedule or the MGS two-part rate itself. NSA parties agree not to challenge the need for additional implementation costs under the NSA and not to oppose a regulatory account for variances between actual and forecast MGS margin.
- Under the NSA, new accounts subject to a two-part rate would pay 85% of monthly consumption at the Part 1 rate and 15% of monthly consumption at the Part 2 rate in the first year [NSA, s.15]; compared to 90%/10% in the Application.
- Under the NSA, the migration rule from the LGS class to the MGS class is that LGS accounts would move to the MGS class if they had 12 consecutive months of peak demand less than 100 kW and energy consumption less than 400,000 kWh in any twelve month period. [NSA, s.4] The Application has the same peak demand criterion, but no energy criterion.
- Both the NSA and the Application have a three-year report requirement. The NSA adds to the topics to be addressed by BC Hydro in the three-year report, among other things, whether any changes or alternatives to the PLBs or 3-year rolling average are desirable or necessary.
- ELGS demand charges are unchanged in both the NSA and the Application. In the NSA, BC Hydro says it will review MGS and LGS demand charges as part of either its time-of-use rate application or before December 2012, whichever is sooner. [NSA, s.17]
- The Minimum Energy Charge in the ELGS remains in place in both the NSA and the Application.

Conservation impacts of the changes between the Application and the NSA

Some of the changes between the Application and the NSA would produce *more* conservation; others would produce *less* conservation. In a qualitative sense, the balance sheet is as follows.

The NSA changes that would produce *more* conservation than the Application are:

- the application of a two-part rate structure to the MGS class (in annual phases and with an inversion of the declining block Part 1 structure), and
- new accounts subject to a two-part rate (all LGS and certain MGS accounts) being subject to Part 1 / Part 2 rates on 85%/15% of consumption in the first year, compared to 90%/10% in the Application.

The NSA changes that would produce *less* conservation than the Application include the following:

- Anomaly Rules – four monthly HBLs being adjusted per year in accordance with the Anomaly Rule, compared to up to two HBLs in the Application,
- Growth Relief – accelerated HBL increase based on year-on-year increase in consumption, and
- Permanent Increase in Consumption – availability of application to BCUC for prospective increase in HBL.

The HBL rolling average clawback effect

BCSEA-SCBC favour fixed HBLs, that would be modified based on efficiency benchmarks or PowerSmart evaluation.³¹

However, if the HBLs are to be continuously adjusted on the basis of a rolling average of previous years' same-month consumption, then it is important to understand the effect of such an approach on the conservation price signal.

In the two-part rate design proposed by BC Hydro, the *nominal* price signal (for consumption within the Price Limit Band) is the difference between the LRMC-based rate and the applicable Part 1 rate.³²

However, the *effective* price signal is significantly less than the *nominal* price signal, because a customer's consumption above the HBL causes the customer's HBL to be higher in the following years. A higher HBL in the subsequent years increases the amount of energy assigned to the customer at the low Part 1 rate, while reducing the amount purchased at the Part 2 rate or increasing the credit at the Part 2 rate. The increase in consumption in the first year reduces customer bills in subsequent years, thereby reducing or eliminating the price signal in the first year.³³

Similarly, a customer that consumes energy *below* its HBL gets a credit at the Part 2 rate in that period. However, the customer's below-HBL consumption lowers its HBL in subsequent years. A lower HBL in subsequent years means that the customer can purchase less power at the Part 1 rate. Again, this effect reduces or eliminates the conservation incentive in the first year.

³¹ Evidence of Paul Chernick, Exhibit C17-4, p.3, lines 23-25; p.7, line 17-21 to p.25, line 11.

³² In the LGS two-part rate structure, the differential is between the Part 2 LRMC-based rate and the Part 1 low Tier 2 rate. In the MGS two-part rate structure, the differential is between the Part 2 LRMC-based rate and the Part 1 high Tier 1 rate.

³³ Evidence of Paul Chernick, Exhibit C17-4, pp.8-13.

This can be referred to as the *HBL rolling average clawback effect*. The clawback extends into the future for the number of years over which the rolling average is calculated. (With the HBL calculated on a three-year rolling average, a change in consumption in year 1 affects the HBL in years 2, 3, and 4.)

The size of the impact of the HBL rolling average clawback effect on the *effective* current period price signal depends on two factors:

- the customer's implicit or explicit approach to the time value of money; and
- the customer's projection of Part 1 or Part 2 prices in future years (up to the number of years over which the rolling average is calculated.)

A customer with a lower discount rate (or a willingness to accept a longer pay-back period) is more affected by the HBL rolling average clawback effect than a customer with a high discount rate. And, the greater the customer's expectation of an increasing spread between Part 1 and Part 2 prices in future years, the stronger the HBL rolling average clawback effect.

Even where the customer expects Part 1 and Part 2 rates to be constant over time, the increased HBL in years 2-4 would be expected to *reduce* bills over years 2-4 by exactly the same amount that the Part 2 rate *increases* the bill in the first year. A customer looking for a payback of four years or more would see exactly the same energy incentive (the low Part 1 rate) under the current rate design and the NSA rate design.

For a customer that has a moderate implicit discount rate and that expects an increasing spread between Part 1 and Part 2 rates over the duration of the HBL rolling average period, it is entirely possible for the effective price signal associated with a single year change in consumption to be *negative* (increased consumption *saves* money, decreased consumption *costs* money).³⁴ More commonly, the impact of the HBL rolling average period is to dramatically reduce the size of the conservation price signal.

Missed opportunities in the NSA

Even within the constraints of a two-part rate design using a rolling average HBL, the NSA misses a number of opportunities to improve the conservation price signal and hence to acquire cost-effective conservation.

1. Length of HBL rolling average

First, the three years is too short a period for the rolling average HBL determination. The faster the HBL is adjusted the greater is the subsidy from customers with stable or declining consumption in favour of customers with increasing consumption. Ideally the HBL would not change with usage after the establishment of the two-part rate, to avoid rewarding increased usage or penalizing decreased consumption. However, BCSEA-SCBC believe that a *ten-year* rolling average HBL determination would be a reasonable compromise between conservation effectiveness and administrative practicality.

³⁴ As is discussed in the text below, the potential for a *perverse* effective price signal is exacerbated where consumption outside of the PLB is not charged or credited at the LRMC-based rate but *is* counted towards a revision in the HBL in future years.

The conservation effect of the NSA would be substantially increased by even a modest increase in the HBL determination period, for example, to a *five-year* rolling average HBL determination period. There is no evidence to suggest that such a conservation improvement would result in any substantial equity or administrative problems.

2. Consumption above Upper Price Limit

Second, if there is to be an Upper Price Limit³⁵ in the two-part rate design, then consumption above the UPL should not count toward an increase in the subsequent years' HBLs.

In Table 7 of his evidence, Mr. Chernick showed how the Price Limit Band can provide a price signal incenting consumption above the Upper Price Limit.³⁶ In its IR 3.1 to BCSEA, *et al*, BC Hydro implicitly acknowledged that basing the HBL only on consumption *within the PLB* would eliminate this undesirable incentive.³⁷

The purpose of the Upper Price Limit is to reduce the number of accounts that would have what are deemed to be unacceptably large bill increases³⁸ due to consumption that greatly exceeds the HBL. This is intrinsically contrary to the principle that economic efficiency is maximized where increased electricity consumption is priced at the marginal cost of new supply. But if for acceptability reasons there must be an Upper Price Limit, then consumption above the UPL should not be *doubly* rewarded by being (a) priced at the Part 1 rate *and* (b) counted toward an increase in the customer's HBL in subsequent years. Consumption above the Upper Price Limit should not contribute to an increase in the customer's HBL.

3. New accounts

Third, new accounts should not have more access to Heritage power than existing accounts. Even at the NSA's proposed 85%/15% split between Part 1 / Part 2 rates in the first year of a new account (as opposed to the 90%/10% split in the Application), a new account has a significant advantage over a same-sized increase in load by an existing account. In addition, under the NSA (as in the Application) the new account gets a year 2 HBL that is 100% of year 1 consumption. In contrast, an existing account that has increased consumption in year 1 gets a year HBL that is only one-third (with a three-year rolling average HBL determination) higher than the year 1 consumption. The effect of this advantageous treatment of new consumption by new accounts is to send a price signal that is substantially less than the economically optimal LRMC-based price signal. This causes: economically sub-optimal increased electricity consumption; cost-shifting from existing accounts to new accounts; and creation of new accounts simply as a cost-saving alternative to expanding consumption on an existing account.

BCSEA-SCBC say that a more appropriate treatment of new accounts would be to

³⁵ The term "Upper Price Limit" is used here, rather than "Upper Price Limit Band," because it seems that "Band" refers to the range between the lower percentage of HBL (80% in BC Hydro's proposal) and the upper percentage of HBL (120% in BC Hydro's proposal.)

³⁶ Exhibit C17-4, p.14.

³⁷ Exhibit B9, IR 3.1 to BCSEA, *et al*.

³⁸ The term "bill increases" is used here instead of "bill impact," because "bill impact" in the rate design context refers to the change in a customer's bill due only to the change in the rate design. The discussion in the text above concerns bill increases that result from a *combination* of the change in the rate design and a large increase in consumption.

- charge energy in the first year at a 75%/25% Part 1 / Part 2 split, and
- start the HBL in year 2 at 75% of year 1 consumption, and phase in the HBL up to current consumption over the number of years normally used for the HBL rolling average determination.

4. LRMC phase-in

Fourth, there should be no phase-in of the LRMC-based price. Both the NSA and the original Application would have the LRMC-based price phased in over three years. This severely blunts the conservation price signal (both the higher price for additional consumption and the credit for reduced consumption) during that period of time. Phasing in the LRMC-based Part 2 price exacerbates the HBL rolling-average clawback effect. *Reduced* consumption during the LRMC phase-in period attracts only a slight credit but causes a reduction in the HBL in subsequent years when any rebound in consumption will be charged at a much higher LRMC-based rate.

Increased consumption during the phase-in period attracts only a slight additional charge but causes an increase in the HBL in subsequent years when the value of a higher HBL is larger than the original additional charge. This inefficient, or even perverse, effective price signal is made even worse if consumption beyond the Price Limit Band counts toward revision of future HBLs.

BCSEA, *et al* say that BC Hydro has not established a *need* for the LRMC phase-in proposal. To the extent that an LRMC phase-in could be seen as ‘easing in’ the new two-part rate structure for the benefit of customers with *increasing* loads, it is equally ‘hobbling’ the potential benefit of the two-part structure for customers with *decreasing* loads. The two-part rate structure has no bill impact on a customer with a consistent load pattern. The *point* of the two-part rate structure is to give a more economically rational price signal both to customers that choose to decrease consumption and to customers that choose to increase consumption. There is no merit in half measures here. If the two-part rate structure is warranted – and BCSEA, *et al* say it is – then it should be implemented in full. Moreover, the LRMC phase-in adds another layer of complication to an already complicated rate structure.

Conclusion

BCSEA-SCBC believe that the rate designs proposed by BC Hydro and by the NSA represent very small and ineffectual efforts in terms of achieving the statutory mandate for conservation-oriented rate structures.

BCSEA-SCBC are unable to support the NSA. They ask that the Commission not endorse the NSA, and that the Commission hold an oral hearing regarding the LGS Application.

Yours truly,

William J. Andrews



Barrister & Solicitor

cc. NSP Distribution List by email
Eileen Cheng, BCUC



**Bull, Housser
& Tupper LLP**

3000 Royal Centre, PO Box 11130
1055 West Georgia Street
Vancouver, BC, Canada, V6E 3R3
Phone 604.687.6575 Fax 604.641.4949
www.bht.com

Reply Attention of:	R. Brian Wallace
Direct Phone:	604.641.4852
Direct Fax:	604.646.2506
E-mail:	RBW@bht.com
Our File:	09-3838
Date:	May 13, 2010

British Columbia Utilities Commission
600-900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: W. Grant

Dear Sirs/Mesdames:

**Re: BCUC Project No. 3698573
British Columbia Hydro and Power Authority ("BC Hydro")
Large General Service Rate Application
Negotiated Settlement Agreement**

We write on behalf of the Joint Industry Electricity Steering Committee (JIESC) to confirm that the JIESC accepts the proposed Negotiated Settlement Agreement (NSA) in this matter and requests the Commission to approve the NSA as submitted.

The JIESC has been involved in BC Hydro's efforts to redo the Large General Service (LGS) Tariff to incorporate conservation signals into that rate for many years. In the 2007 Rate Design Proceeding the JIESC opposed BC Hydro's proposed tariff revisions. The Commission concurred, finding that the 2007 rate proposal was "ill conceived and poorly executed" and denied the proposal. This proposal is very different and has the strong support of the JIESC.

The JIESC recognizes that redesigning the LGS rate with its 22,000 customers is a major undertaking fraught with the possibility of severe customer impacts and unintended consequences. The JIESC and its members have been involved in current rate redesign review and appreciate the efforts BC Hydro has made to understand the customers' operations and to design a new rate that will send a conservation signal while not doing undue and unnecessary harm to customer operations.

BC Hydro has engaged in a very extensive consultation process with a broad range of customers, details of which are contained in Appendix D to the Application. That effort, coupled with the recent negotiated settlement process has reached the agreement set out in the NSA. The changes to the application contained within the NSA result in a reasonable rate structure



Bull, Housser
& Tupper LLP

which provides strong conservation rate signals, while still not punishing companies whose businesses are growing and expanding the economy of British Columbia.

The balancing of the need to send conservation price signals and the need to ensure that new and growing customers can receive power at a reasonable cost is one of the most difficult parts of the rate design. The JIESC is concerned about both. Three elements of the NSA are essential to allowing growth in combination with a conservation price signal.

1. The use of a three year rolling average for the Historic Base Line (HBL). The intent of the HBL is that it will represent a customer's electric usage under normal circumstances. The use of a rolling HBL means that those customers whose business is growing will not be permanently punished by pricing all new power at the long run marginal cost (LRMC). Over time the HBL will reflect normal usage and provide a continuous price signal at the LRMC. This is important because if growing customers were to permanently to buy all additional power at the LRMC there would be a serious disincentive for existing customers to grow their business, to the detriment of the British Columbia economy generally.
2. The 80:120 Price Limit Bands (PLB). The PLB's limit the amount of power that a rapidly growing company will purchase at the LRMC in any one year. This limit again caps the cost exposure of a growing company while providing a significant price signal to encourage conservation and efficient electricity use.
3. The inclusion of energy consumption over the 120% upper band in the HBL. The HBL is intended to represent a customer's normal energy use. Excluding electricity use over the 120% upper band in the HBL simply ignores the reality of customer's growth and provides a serious disincentive to economic growth by existing customers in British Columbia. This is not desirable for the customers, nor is it desirable for the Province of British Columbia.

In summary, the JIESC submits that BC Hydro, its customers, and other stakeholders have worked hard to arrive at a rate that provides conservation signals and recognizes that the efficient use of electricity in a growing economy is good for the Province. Accordingly, the NSA should be approved.

Yours truly,

Bull, Housser & Tupper

A handwritten signature in cursive script, appearing to read 'R. Brian Wallace'.

R. Brian Wallace
RBW/sg/2247961

Dear Sir:

Re: British Columbia Hydro and Power Authority
An Application by BC Hydro regarding Terms and Conditions of
Service to its Large General Service Customers (LGS Rate Application)
Negotiated Settlement Agreement

This has reference to your letter of May 12, 2010 which enclosed for our review and comments a draft of the recently Negotiated Settlement Agreement (NSA) for British Columbia Hydro and Power Authority's (BC Hydro) LGS Rate Application.

BC Ferry Services Inc. (BC Ferries) would first like to take the opportunity to thank the Commission Panel for allowing us to participate in the negotiations process and to be afforded the opportunity to comment on the draft Negotiated Settlement Agreement. We were particularly pleased at the level of expertise of the Commission member's staff and the genuine willingness of both the Commission and BC Hydro to entertain the views of one of BC Hydro's Large General Service Customers.

We are pleased to be able to endorse the Negotiated Settlement Agreement as we believe it addresses the primary issues that BC Ferries raised and were concerned about.

We appreciate the difficulty to meet the "Bonbright" criteria and our desires to see a simplistic approach to billing. As you can appreciate from a customer's perspective the more complex a billing process is the more internal resources and expenditures there will be needed to ensure there a clear corporate understanding of any new rate design. We appreciate that while further steps could have been taken to maximize equity our concern was the additional billing complexity that would have resulted with limited gains in equity. We believe the NSA has attempted to balance the complexity of billing and the equity of costs.

BC Ferries strategy and goals are focused on reducing Green House Gases and the NSA recognises this goal and provides us with the opportunity to continue with this important strategy.

Demand is an extremely important issue to BC Ferries and which we believe requires further investigation. We are therefore pleased that there is a clear commitment that BC Hydro will review this key aspect of the rate structure with customer involvement.

BC Ferries believes that the NSA provides an equitable settlement based on the various Large General Segment and Medium General Segment participants requirements while still encouraging conservation.

We fully support the use of the 2007-2010 rolling average Historical Baseline (HBL) and the inclusion of energy consumption over the 120 percent upper band in the average HBL.

We trust that our participation and endorsement of this NSA will assist the Commission to accept the settlement package to set rates for implementation on January 1, 2011. We would be pleased to attend to requests for any further information that may be required to assist in the Commission's deliberations.

Yours truly,

Doug Peabody
Energy Manager, Terminal Maintenance
British Columbia Ferries Services Inc.



David Pertula
Terasen Gas Inc.
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 592-7470
Cell: (604) 250-2722
Fax: (604) 576-7074
Email: dave.pertula@terasengas.com
www.terasengas.com

May 13, 2010

VIA EMAIL

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

**Re: BC Hydro Large General Service Rate Design ("LGSRD")
BCUC Project No. 3698573
Negotiated Settlement Agreement**

On behalf of the Terasen Utilities, my colleague, Shawn Hill and I took an active role in the LGSRD Negotiated Settlement Process.

We are pleased to confirm our support for the Negotiated Settlement Agreement ("NSA") Version 1.1, circulated by Ms. Cheng on May 12, 2010. We wish to commend Mr. Bill Grant and other Commission staff and representatives for successfully guiding the negotiated settlement process to what we consider to be a fair and balanced result as expressed in the NSA. Further, BC Hydro was very accommodating in responding to requirements to review and analyze various complex issues as they arose during the NSP. Intervenor groups also made significant contributions during negotiations to the positive result in the NSA. Accordingly, we recommend that the Commission approve the LGSRD NSA.

The intent of the LGSRD Application was to establish conservation rates for BC Hydro's ELGS customer class while balancing other rate design principles such as promoting rate and bill stability or avoiding undue discrimination. This is a very difficult undertaking, considering the very large and diverse nature of the ELGS customer class. The Terasen Utilities see clear evidence of success in the negotiated settlement process in the fact that the proposed changes to the LGSRD Application in the NSA are expected to yield about 20% (or approximately 300 GWh per year) more conservation than expected in the Application while at the same time addressing various matters of concern to customer groups such as avoiding excessive rate impacts for growing customers through HBL adjustment provisions.

Perhaps the most significant change the NSA makes to the Application is to include a two-part rate structure for MGS customers on a phased-in basis, in three blocks. Paragraph 6 of the NSA acknowledges that there may be risks associated with introducing the two-part rate structure to MGS customers. This component of the NSA is indicative, in Terasen's view, that negotiations produced important and beneficial modifications to the Application. Further, the rates to be implemented out of the NSA will go a long way to achieving the desired objectives of the rate design, balanced against the risks. In addition, the three-year review process

Page 2

covered in paragraph 16 of the NSA will provide an opportunity to address whether further modifications to MGS and LGS rate designs are desirable to achieve additional conservation benefits or other rate design objectives.

Yours very truly,

TERASEN GAS INC.
TERASEN GAS (VANCOUVER ISLAND) INC.

Original signed by

David Perttula

cc: Eileen Cheng, Senior Economist, BCUC
NSP Participants

William E Ireland, QC
Douglas R Johnson*
Allison R Kuchta*
James L Carpick*
Michael P Vaughan
Heather E Macconachie
Michael F Robson*
Scott H Stephens
Edith A Ryan

D Barry Kirkham, QC*
James D Burns*
Susan E Lloyd*
Christopher P Weafer*
Gregory J Tucker*
Terence W Yu*
James H McBeath*
Ramuwek S Padda
James W Zaitsoff

Robin C Macfarlane*
Duncan J Manson*
Daniel W Bunnett*
Paul J Brown*
Karen S Thompson*
Harley J Harris*
Paul A Brackstone*
Zachary J Ansley

J David Dunn*
Alan A Frydenlund*
Harvey S Delaney*
Patrick J Haberl*
Gary M Yaffe*
Jonathan L Williams*
Marilyn R Bjelos
Susan C Gilchrist

Carl J Pines, Associate Counsel*
R Keith Thompson, Associate Counsel*
Rose-Mary L Basham, QC, Associate Counsel*

Hon Walter S Owen, QC, QC, LLD (1981)
John I Bird, QC (2005)

* Law Corporation
* Also of the Yukon Bar

OWEN • BIRD
LAW CORPORATION

PO Box 49130
Three Bentall Centre
2900-595 Burrard Street
Vancouver, BC
Canada V7X 1J5

Telephone 604 688-0401
Fax 604 688-2827
Website www.owenbird.com

Direct Line: 604 691-7557
Direct Fax: 604 632-4482
E-mail: cweafer@owenbird.com
Our File: 23841/0046

May 13, 2010

VIA ELECTRONIC MAIL

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Erica M. Hamilton, Commission Secretary

Dear Sirs/Mesdames:

**Re: British Columbia Hydro and Power Authority (BC Hydro) Application regarding
Terms and Conditions of Service to its Large General Service Customers
Negotiated Settlement**

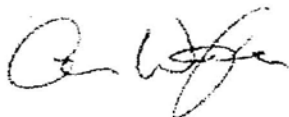
We are counsel to the Commercial Energy Consumers Association of British Columbia (CEC) and participated in the proceeding and negotiated settlement process regarding the above-noted matter. The CEC has reviewed the Negotiated Settlement Agreement (NSA) circulated by Commission staff on May 12, 2010. The CEC advises that they accept the terms and conditions set out in the NSA.

The CEC wishes to express its appreciation for the work of the Commission staff, the facilitator, Mr. Bill Grant, BC Hydro and other participants for an effective and efficient negotiation process which has resulted in this agreement.

If you have any questions regarding the foregoing, please do not hesitate to contact the undersigned.

Yours truly,

OWEN BIRD LAW CORPORATION



Christopher P. Weafer
CPW/jlb
cc: CEC
cc: William J. Grant
cc: Eileen Cheng
cc: BC Hydro
cc: Registered Intervenor



FOR GENERATIONS

Joanna Sofield
Chief Regulatory Officer
Phone: (604) 623-4046
Fax: (604) 623-4407
bchydroregulatorygroup@bchydro.com

May 13, 2010

Ms. Erica M. Hamilton
Commission Secretary
British Columbia Utilities Commission
Sixth Floor – 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

RE: Project No. 3698573
British Columbia Utilities Commission (BCUC)
British Columbia Hydro and Power Authority (BC Hydro)
Large General Service Rate Application (LGS)

BC Hydro writes to confirm its acceptance of the Negotiated Settlement Agreement (NSA) attached to Mr. Bill Grant's letter of May 10, 2010, and as amended on May 12, 2010, and to provide the following comments.

The LGS NSA describes a number of changes to the rate structures applied for in the LGS Rate Application, plus changes to the account population to whom a two-part rate applies. In aggregate, the changes outlined in the LGS NSA increase BC Hydro's estimate of expected conservation by approximately 300 GWh per year by F2015, compared to the LGS Rate Application (see Appendix D of the LGS NSA).

On March 19, 2010, the Commission Panel issued Exhibit A-11 which outlined issues of concern to the Commission Panel regarding the LGS Rate Application and any NSA that may arise from it. BC Hydro believes that Section IV of the LGS NSA addresses the issues raised and in particular, that Section 58.1(6) of the *Utilities Commission Act* does not prohibit the Commission from approving the LGS NSA.

In BC Hydro's view, the LGS NSA represents a reasonable compromise of the issues arising in the LGS Rate Application, and BC Hydro respectfully submits that the Commission ought to approve it.

May 13, 2010
Ms. Erica M. Hamilton
Commission Secretary
British Columbia Utilities Commission
Large General Service Rate Application (LGS)



Page 2 of 2

BC Hydro thanks all participants for their efforts during these negotiations.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Joanna Sofield".

Joanna Sofield
Chief Regulatory Officer

c. BCUC Project No. 3698573 (BCH LGSRD) Registered Intervener Distribution List.