

Morgan Stanley

February 23, 2011

Ms. Brenda Ambrosi
Customer Service Manager
BC Hydro Transmission
1100 – 1055 Dunsmuir Street
Vancouver, BC V7X 1V5

Via email

Dear Ms. Ambrosi,

RE: Conditional Firm Business Practice

BC Hydro has submitted two versions of Business Practices on proposed alternatives for implementing Conditional Firm Service (CFS). In regards to the proposed Business Practices and the Customer Consultation Session held on February 4, 2011, Morgan Stanley Capital Group Inc. (“MSCG”) submits the following comments.

MSCG has many questions about the implementation of CFS that BC Hydro has outlined in their Business Practice. Our questions relate to various aspects of the implementation and are specified below:

Questions Relating to CFS

1. Resale of CFS

- 1.1. CFS is described as a form of Long Term Firm Point-to-Point (LTFPTP) transmission service. If CFS is unused will it be resold in Realtime as Non Firm (NF) transmission?
 - 1.1.1. Will both the firm service and the conditional service aspects of CFS be resold?
 - 1.1.1.1. If so, when will this transmission be offered?
 - 1.1.1.2. Will a customer be able to buy their own unused CFS as non-firm transmission?
 - 1.1.1.2.1. Currently, there is a BP prohibiting a customer from buying their own unused firm as non-firm to prevent hoarding. Will this BP be extended to CFS?
- 1.2. If CFS is released as NF in Realtime in the same manner as LTFPTP what TTC will be used on the BC-AB path when it is released?
 - 1.2.1. Will BC Hydro use the TTC outlined in the CFS Business Practice in Section 6.3 (850 MW) or the TTC outlined in the TTC/ATC Business Practice which states that, “in Real-time, the TTC of the intertie is set to the lower of the BC Hydro limit and the limit specified by the AESO”?
- 1.3. If a customer owns CFS transmission on the BC-AB path and does not use that transmission and it is released as NF in Real Time, will the space on that particular path become available simultaneously with other paths (e.g. US-BC)?
 - 1.3.1. Does unused CFS that is released as NF transmission come available simultaneously on all paths or is there a particular order for how the transmission is released in Real Time?
- 1.4. If BCPS or an Affiliate owns CFS and does not schedule on this transmission and if in fact this transmission is resold in Real Time as non-firm transmission will BCPS be eligible to purchase

the unused transmission as Network Economy and curtail any other purchaser of non-firm transmission?

2. *CFS and Redirects*

- 2.1. In the Business Practice for CFS it states in Section 8.0 (2) that, "Firm Transmission Service cannot be redirected to CFS on short-term basis," and "CFS is a long-term transmission service, but not available and posted for short-term." The example given shows a customer redirecting both the firm and conditional service CFS transmission from Path A to Path B but they are unable to redirect back the conditional service on Path A after redirecting to Path B. Since the additional transmission that will be sold on the BC-AB and US-AB paths will be 100% conditional does this mean that customers will be unable to redirect on this path?
 - 2.1.1. For example if a customer owns 180 MW of CFS on the US-AB path and they wish to redirect that transmission to the BC-AB will they be able to do this?
 - 2.1.2. What if they try to redirect for a long-term (i.e. for the 2 years of their Conditional Service)?
 - 2.1.3. Will that customer be able to redirect onto a BC-US path as Firm, CFS or Non-Firm?
 - 2.1.3.1. If so will that customer still retain its rights on the original path as CFS?

3. *Queue Offerings*

- 3.1. The BC-AB and US-AB paths are unique because as outlined in Section 6.3 pursuant to BCUC Order G-110-08 and G-45-10, the requests in the Long Term queue will remain there until they expire. Will CFS offers on this path be made sequentially or simultaneously to those in the Queue?
- 3.2. Since the CFS offered on this path (BC-AB and US-AB) will be all conditional service (there is no monthly Firm ATC on this path for the foreseeable future) this transmission will be curtailed pro-rata with other conditional firm transmission on this path. Will a customer who is offered this transmission in the queue have the ability in their contract to accept this transmission on a conditional basis based on how much CFS other customers in the queue accept?
- 3.3. Will a customer know prior to signing a CFS Service Agreement whether or not other customers have signed a CFS Agreement for their transmission?
- 3.4. When will the customers in the BC-AB and US-AB queue be offered CFS Service Agreements and when will these Service Agreements begin?
- 3.5. How long will customers have to decide if they wish to accept CFS?
- 3.6. When a counterparty is offered CFS (both the firm service and/or conditional service) are they able to take only a portion of what is available or are they obligated to take the full amount offered? For example, a customer has a request in for 200 MW of transmission but there is no monthly firm ATC for any months in the Forecasted Period and there is only 180 MW of capacity available. It is MSCG's understanding that the customer will then be offered 180 MW of service that is 100% conditional. Does the customer have an obligation to take the full 180 MW of CFS or do they have the ability to take only 50 MW if they choose?

4. *Reassessment of CFS*

- 4.1. The Business Practice states that when CFS is a Substitute Service, BC Hydro will provide the customer with the results of the biennial reassessment and if the Firm ATC levels become more onerous to the Transmission Customer, they may choose to continue or discontinue the service. If the Firm levels become less onerous or are unchanged, both parties remain contractually

bound. What happens on the BC-AB and the US-AB path where Section 6.3 outlines that the CFS offers will be 100% conditional?

- 4.1.1. On this path, the customer will have no way of getting out of the contract since it is impossible for this offer to become more onerous. Will there be a unique Service Agreement for this particular path or will the customer be forced to renew their CFS until firm transmission is available?

5. *Curtailments and CFS*

- 5.1. In the Curtailment of Transmission and Energy Business Practice it states that Conditional Firm Transmission during the Conditional Period will be cut pro-rata with other Conditional Period Conditional Firm and Network (Type 1) Transmission. Will this pro-rata cut be based on the tags submitted or based on the original CFS TSRs?
- 5.2. At what time in the operating hour will a customer be notified of a pro-rata curtailment?
 - 5.2.1. If Curtailments are made based on TSR's at what time in the operating hour will customers be notified?
 - 5.2.2. If curtailments are made on Tags does BC Hydro recognize that it is not practical for anyone other than BC Hydro to implement energy tags that are expected to be curtailed due to the cost of unused transmission and generation?
- 5.3. In the Curtailments and Energy Business Practice, it states that at xx:40 BC Hydro will recall all unscheduled Network Economy Service and will then determine if an infringement upon SL exists for each path for the next scheduling hour. Please confirm that for all paths BC Hydro will make the curtailments for CFS at xx:40 and that it will not be left to the Adjacent Control areas (BPAT and AESO) to make the curtailments.
- 5.4. If a customer owns a particular path (i.e. BC-AB) as Long Term CFS and has to buy an hourly wheel in leg (US-BC) to link up to their CFS service but their CFS service is curtailed pro-rata does that customer get a refund on the linked leg of transmission?
- 5.5. If a customer has CFS service on the US-AB path, which path governs for determining if prorata curtailments are required?
 - 5.5.1. For example, suppose a third party owns 25 MW of Conditional Firm from US-AB during the winter when the US-BC.Ntwk path is considered conditional. If BCPS purchases 100% of the available import capacity as Network Economy will the 25 MW of wheel through CFS be subject to pro-rata curtailments with the Network Economy Service?
 - 5.5.2. For example, if the import capacity is 1950 MW and BCPS purchases all available Network Economy Service including 1000 MW of counter-schedule space and a prorata curtailment is required if the tie is derated or an export schedule is reduced shortly before xx:40 will this result in the 25 MW of CFS wheel through being curtailed prorata with the 2925 MW of Network Economy?

6. *Cost of CFS*

- 6.1. If a customer owns a particular path (i.e. BC-AB or BC -US) as Long Term CFS and has to buy an hourly wheel in leg (US-BC or AB- BC) to link up to their CFS will that customer be charged for the pancaked second transmission leg?
- 6.2. Will the customer be charged once, twice or not at all for Rate Schedule 07 and 08 for Spinning and Supplemental Reserves?

7. *TTC for CFS*

- 7.1. Section 6.3 explicitly outlines the TTC that is going to be used for the BC-AB and US-AB path for CFS offers. Please outline the TTC that will be used for all other paths on the BC Hydro system.

MSCG also has three main concerns. Our concerns can be categorized as: 1) Definition and Degree of Conditionality 2) CFS is a new product and should be offered to all interested customers and 3) The proposed CFS does not provide a level playing field for non-affiliated customers of the BC Hydro transmission system

Definition and Degree of Conditionality

In Section 15.4 (c) of the OATT BC Hydro has submitted that “the Transmission Provider may curtail the service prior to the curtailment of other Firm Transmission Service under specified curtailment conditions.” In Section 2.0 of the CFS Business Practice, BC Hydro proposes:

If the monthly Firm ATC is less than the capacity requested, BC Hydro will offer firm service in an amount equal to the monthly Firm ATC, and conditional service for the balance of requested capacity subject to TTC limitation (i.e., $TTC \geq \text{Transmission Reliability Margin (TRM)} + \text{Existing Firm Commitments} + \text{CFS}$)

This definition varies greatly from FERC’s definition of Conditional Firm which outlines that “the Transmission Provider may curtail the service prior to the curtailment of other Firm Transmission Service for a specified number of hours per year or during System Condition(s).” It also varies from the definition outlined in WECC’s Strawman Guideline which defines CFS as “A form of long-term firm PTP service that is offered when the TSP does not have long-term firm ATC to meet the request. CFS includes less-than-firm service defined by a lower curtailment priority in either a defined number of hours in a year or during predefined system conditions.”

MSCG is concerned with the high degree of conditionality that BC Hydro is proposing for CFS. The product BC Hydro is proposing cannot be called Conditional Firm Service in any realistic sense if not one MW of the product is actually Firm for the duration of the 2-year Service Agreement. For instance, on the BC-AB path the monthly Firm ATC is always going to be zero unless BC Hydro files for a change to Attachment C of the Tariff to increase the Firm TTC on the BC-AB path to an amount greater than 545 MW. Section 6.3 of the proposed Business Practice outlines the plan to offer 305 MW of Conditional Firm on the BC-AB path even though there is (and for the foreseeable future will be) not one MW in one month of Firm ATC on that path. MSCG is concerned that the product that BC Hydro is offering is essentially Long Term Secondary Service. Using the definition defined in the proposed Business Practice the maximum conditional service offered will be equal to $TTC - TRM - \text{Existing Firm Commitments} - \text{monthly firm ATC}$ (which will be offered as firm service). In many cases this is greater than or equal to the amount of Non Firm transmission that is available.

MSCG would like to see BC Hydro define a very specific limit to curtailment conditions. MSCG proposes that BC Hydro make an effort to define the minimum degree of conditionality for CFS. In the gas pipeline business where the concept of Conditional Firm Service has been used on some pipelines for over 10 years the service may not be interrupted more than 10 days in a year. MSCG recommends that a parameter of this type is required to ensure that only an appropriate amount of Conditional Firm is sold. This would be

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in line with what FERC and WECC propose. At a very minimum MSCG recommends that if the amount of the firm service component of CFS is less than one MW then the service should not be offered at all.

CFS is a new product

BC Hydro proposes to offer CFS to the current customers in the long term firm queue. MSCG believes that to the extent that Conditional Firm is created and offered, it must be offered on a non-discriminatory basis to all interested parties, not set aside for parties that remain in the long term queue. Most of the requests in the long-term firm queue were submitted before the Conditional Firm product was created and offering this product to these customers and not to all customers is unfair. If this product had been available when the original requests were submitted, other counterparties may have considered submitting a request. MSCG argues that simply putting a request for firm transmission should not earn one favored treatment.

MSCG recommends that either an Open Season or Simultaneous Window approach should be used to offer this new product to customers.

Level Playing Field

MSCG has made comments to BC Hydro and the BCUC regarding our concerns to which the current combination of OATT requirements, Business Practices and governance (meaning corporate decision-making within BC Hydro) truly provide a level playing field for non-affiliated customers of the BC Hydro transmission system. In response to these comments, BC Hydro is hosting a Customer Information Session on March 11, 2011. BCUC approved the recent OATT Amendments based on BC Hydro holding this customer stakeholder session.

Many of the customer concerns that are expected to be addressed at the March 11th session are applicable to the proposed CFS Business Practice as well. The issues include the make-up of the transmission queue, the cost of transmission (including possible pancaking charges), losses, ancillary service charges, coordinating the posting of the TTC and ATC between different paths, curtailment procedures, and the fact that the BC to AB tie is constantly de-rated in the day plus one scenario (the preschedule limit is the lower of the BC TTC limit and Alberta TTC limit calculated by the AESO).

MSCG is concerned that the CFS product as proposed will provide BC Hydro (BCPS) the opportunity to purchase 100% of the available BC Hydro Transmission capacity on all constrained BC Hydro transmission paths, which will effectively eliminate any third party marketer or IPP from wheeling in, out or through BC. On Feb 4, 2011 BCPS submitted over 2400 MW of Transmission Requests from AB- BC and AB- US in addition to its existing requests of over 1000 MW from the US and BC to AB and over 1200 MW from the US to BC.

MSCG requests that the process of reviewing the Conditional Firm Business Practice be delayed until after the BC Hydro Customer Information Session and the CFS product only be implemented after all the issues are clearly addressed.

MSCG appreciates the opportunity to provide its views to BC Hydro.



Steven A. Huhman

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Executive Director