

February 23, 2011

BC Hydro
1100 - 1055 Dunsmuir St.
Vancouver, BC
V7X 1V5

Attention: Ms. Brenda Ambrosi
Manager, Wholesale Market Services

Dear Ms. Ambrosi:

Re: Conditional Firm Service “CFS” Business Practice

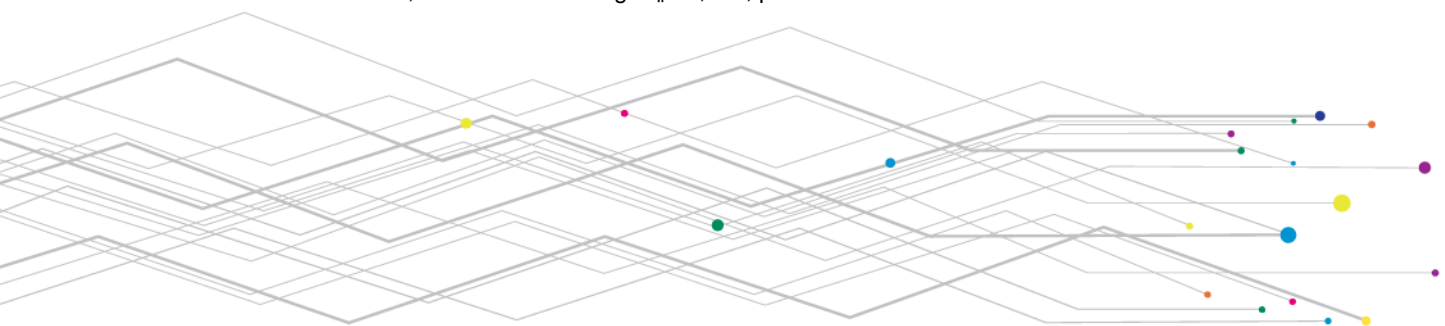
Powerex writes to provide comments regarding the CFS Business Practice workshop (the “Workshop”) held on February 4, 2011 in recognition that the purpose of the Workshop was for BC Hydro to consult with customers regarding the draft CFS Business Practice to facilitate BC Hydro’s requirement, pursuant to BCUC Order No. G-102-09, to implement CFS on or before March 31, 2011.

Protection of Firm Rights Holders

Powerex is supportive of the general structure of BC Hydro’s CFS in which the priority of existing firm rights holders is protected. This is of primary importance to Powerex and is consistent with, and in the spirit of, BCUC Order No. G-103-09 (the “TCE Decision”) regarding the TransCanada Energy Complaint in the sense that the provision of BC Hydro’s CFS does not impact existing long-term firm transmission rights holders. This also aligns with FERC Order No. 890 in which FERC stated that CFS “...does not harm other firm customers. Indeed, it has precisely the opposite effect: it permits an interruption to maintain firm service to other customers.”¹

Similarly, Powerex is supportive of BC Hydro’s proposal to limit the volume of conditional period CFS made available for a specific path to the difference of TTC-TRM-Existing Firm Commitments. Doing so will prevent the potential for significant degradation of the CFS procured pursuant to earlier queued requests. For the same reason Powerex believes that the curtailment of CFS during conditional periods should be done on a last in, first out basis; although it accepts that the proposed pro rata method is consistent with BC Hydro’s curtailment practice for similar products.

¹ Order No. 890, FERC Stats. & Regs. ¶ 31,241, p. 548.



Option 1 vs. Option 2

At the Workshop BC Hydro proposed two discreet options – Option 1 and Option 2 – for the CFS Business Practice of which only one will be implemented. Powerex understands that BC Hydro will decide which business practice to implement based on the comments it receives from transmission customers following the Workshop. For the reasons set out below Powerex supports the implementation of Option 1.

The primary difference between Option 1 and Option 2 affects the BC>US and AB>US paths and relates to the timing that BC Hydro tenders the transmission customer a CFS service agreement. Specifically, the difference between the two options arises if there is a gap of greater than two months from the submission date and the service start date of a transmission service request with a duration that exceeds BC Hydro's CFS forecasting horizon.

Under Option 1, BC Hydro proposes to tender the CFS service agreement within 30 days of the submission date and the volume for those months that extend beyond BC Hydro's forecasting horizon will be considered conditional. In Powerex's view this circumstance is sufficiently mitigated pursuant to section 4.0 of the CFS Business Practice whereby "Short-Term Firm ATC ... will be awarded to CFS Transmission Customers to convert the conditional service amounts to firm service amounts ("firm up") prior to being offered to the market." Consequently, Option 1 preserves the transmission rights of the longer duration request for firm service and accords with the FERC requirement that CFS should not be interrupted prior to short-term firm service.²

Under Option 2, BC Hydro proposes to tender the CFS service agreement no earlier than one month prior to the service start date thereby providing some certainty for the months at the back-end of the service request. As indicated above, this is not necessary due to the transmission rights of CFS over short-term firm. However, since Monthly Firm service may be purchased 60 days in advance for a term of up to 11 months and cannot be displaced by Long-Term Firm service 30 days prior to start of service, Option 2 may result in a Long-Term Firm service request losing significant firm volume to a subsequently submitted Short-Term Firm service request. In Powerex's view this possibility is of significant concern and would be inconsistent with the principle of the FERC requirement outlined in the preceding paragraph. Consequently, Powerex does not support Option 2.

CFS on the BC>AB Path

Powerex is supportive of BC Hydro's proposed CFS Business Practice as it relates to the BC>AB path because it protects firm rights holders and preserves the existing queue priority as required by BCUC Order No. G-102-09 and the TCE Decision, respectively.

A transmission customer present at the Workshop commented that CFS on the BC>AB path should not be offered based on the following claims: (i) the WECC Regional Criteria restricted the use of CFS to those paths that currently have firm ATC in at least some of the months requested; and (ii) there is no expectation in the foreseeable future for any increases to the ATC on the BC>AB path. Both of these claims are incorrect.

² Order No. 890, FERC Stats. & Regs. ¶ 31,241, p. 634.

WECC's Approved Regional Criteria contain no references to CFS. Even if this were not the case, BC Hydro's proposed business practice states that it follows these criteria in most, but not all instances. Moreover, the provision of CFS is not regulated by WECC, but rather by the BCUC in BC and more generally by FERC.

BCUC Order No. G-102-09 requires BC Hydro to offer CFS on the BC>AB path provided that "it is offered in a conditional period where it would be curtailed prior to other firm services (conditional period-conditional firm), without further Commission approval."³ BC Hydro's proposed CFS Business Practices do exactly that. The FERC-required provision of CFS is limited only by reliability concerns, which are mitigated through the option of committing to network upgrades or facing biennial reassessments. Nowhere in the BCUC Order or any of the FERC 890 Orders did FERC limit the requirement to offer CFS to paths with firm ATC in some periods of the request.

Regarding the second claim, the BCUC determined in the TCE Decision that "480 MW will be the limit [for the BC>AB path] on a prospective basis *until such time as AESO is able to accept additional energy from British Columbia* (emphasis added)."⁴ The AESO is currently exploring options pursuant to the Alberta Transmission Regulation requirement that the AESO plan to restore existing interties to their path rating.⁵ In this regard and with respect to the BC-AB intertie, the AESO is planning to implement a new load shedding scheme for imports by spring 2011 and is further exploring the addition of an AC-DC-AC converter station; both of which would increase the energy that the AESO could receive from B.C.

Offering CFS on the BC>AB path respects the rights of those customers in the queue for Long-Term Firm service by offering a bridge or a substitute service relative to the current practice of bypassing this queue and offering transmission service on a non-firm basis potentially to other customers. The BCUC recognized this in its TCE Decision by requiring BC Hydro to: (i) place the affected customers (i.e., those customers whose service agreements were cancelled or reduced as a result of the TCE Decision) at the top of the existing queue; and (ii) determine with its affected customers how to allocate the 305 MW capacity reduction, for which CFS is an option. It is of key importance that the BCUC suggested CFS as an option in the same order in which it set the 480 MW limit.

A concern that CFS on the BC>AB path does nothing more than increase the price of a non-firm product was raised at the Workshop. In Powerex' view this is an economic decision that should be at the discretion of the transmission customers. If CFS on this path is uneconomic, customers have the option to refuse the service and if each customer does so, non-firm service will be available to the extent that it is currently. On the other hand, if a customer is willing to pay the long-term firm price for CFS knowing in advance the risk of curtailment, that should be left to their discretion.

Some customers at the Workshop were concerned that CFS would eliminate the availability of Non-Firm service to Alberta. This is not the case. Unused capacity from Firm service and CFS, as well as counter-schedules, will still create hourly non-firm space to Alberta for the majority of the hours each year. Further, non-firm service will be available to the extent that less than the full 305 MW is sold as CFS. Nevertheless,

³ BCUC Order No. G-102-09, p. 12.

⁴ BCUC Order No. G-103-09, p. 45.

⁵ Alberta Regulation 86/2007, section 16.

section 14.2 of BC Hydro's OATT makes it clear that any Long-Term Firm service, such as CFS, has priority over Non-Firm service. This is as it should be since CFS is charged at the Long-Term Firm rate.

For the above reasons, Powerex asserts that BC Hydro's proposed treatment of CFS of the BC>AB path is appropriate and required.

Short-Term Firm ATC

Powerex supports the clarification BC Hydro provided on February 16, 2011 regarding the release of Short-Term Firm ATC and the "firming up" of CFS reservations since the proposed method further protects firm rights holders. Powerex would appreciate additional clarification that any firm ATC that becomes available on a long-term basis will be awarded to confirmed CFS reservations on that path on a queue priority, rather than on a pro rata, basis.

Thank you for the opportunity to provide comments on the Workshop. Please feel free to contact me should you have any questions with respect to Powerex's comments.

Sincerely,

Original Signed by:

Mark Thompson
Trade Policy - BC, Alberta & Green

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