



DATE: January 31, 2014

TO: Janet Fraser
Chief Regulatory Officer
BC Hydro

FROM: Dean Jones
Manager, Electricity Trading
NorthPoint Energy Solutions

SUBJECT: BC Hydro Headroom Tariff Consultation Workshop

Key Messages

1. NorthPoint supports BC Hydro's efforts to protect our investment in firm transmission service on BC Hydro's system.
2. NorthPoint is aware BC Hydro has been actively engaged in seeking a fair and equitable solution with the AESO.
3. Curtailments over time have increased and now with the MATL circuit in service and the AESO's allocation rule ("Rule 203.6") in place, we have seen a noticeable rise in curtailments of our firm service.
4. NorthPoint is deeply concerned with the series of events that have lead BC Hydro to take this step.
5. NorthPoint see's financial risk associated with any required enforcement of the Headroom Tariff.
6. NorthPoint is concerned about the possibility of more financial risk in the AESO's possible response to the Headroom Tariff.
7. NorthPoint comments specific to the rule.

Background

NorthPoint is aware that BC Hydro has participated in all avenues available to communicate their concerns to the AESO regarding Rule 203.6:

1. The AESO stakeholder processes that occurred prior to filing the rule with the AUC for their approval.
2. BC Hydro's application to the NEB demonstrating the MATL was not following the terms of their permit.
3. The objection to Rule 203.6 and subsequent AUC hearing.
4. The AUC review and variance process.
5. Appeal filed with the Alberta Court of Appeal (pending)

BC Hydro will, along with the firm transmission right holders on the BC side of the BC/AB intertie, have seen the frequency of curtailments to firm transmission rights increase over time. Now with the MATL in service and the implementation of Rule 203.6, curtailments to firm BC Hydro transmission have taken a noticeable increase. This is in stark contrast to the legislated obligation the AESO has had in place since 2007 (The Transmission Regulation or "TREG") that requires the AESO to restore existing interties to or near their rated capability.

Given the approach taken by the AESO in the development and defense of Rule 203.6, and the potentially significant incremental cost to the AESO, we are deeply concerned about where the AESO will go to find the revenue to pay this new Headroom Tariff. Any attempt by the AESO to increase fees levied to intertie transactions will only serve to remove any arbitrage value between Mid-C and the AESO. This could potentially drive intertie flow to zero. The Headroom Tariff proposal is a reasonable solution available to BC Hydro to legitimately compensate the investors on the BC side of the BC/AB intertie, given the impacts of Rule 203.6 and the setting aside of headroom on the BC/AB intertie.

NorthPoint has the following comments specific to the proposed Headroom Tariff:

1. The Headroom Tariff appears to be in alignment with restoring the financial damages we will realize as a result of curtailments to firm transmission related directly to Rule 203.6.
2. The Enforcement Mechanism used to prevent unauthorized use carries with it some financial risk for NorthPoint. In an hour where enforcement is initiated, our schedule will be interrupted at a point in time when the AESO will be moving up the merit order to restore supply. In the context of a single hour the cost or lost opportunity, depending on the portfolio, could be significant. This however pales in comparison to the cost of the curtailments we will see over time due to Rule 203.6.
3. BC Hydro does not appear to be compensated for the loss of possible non-firm transmission sales made unavailable to the market due to Alberta's headroom requirement.

NorthPoint appreciates the opportunity to supply comments regarding BC Hydro's Headroom Tariff proposal and supports BC Hydro's efforts to seek fair compensation for our investment in firm transmission in BC.

Dean Jones
Manager, Electricity Trading