

BC Hydro's Fully Allocated Cost of Service Study Workshop

Meeting Minutes

SFU Harbour Centre, Vancouver, BC

January 29, 2007

ATTENDEES

Attendee	Organization
Dave Humber	West Fraser Mills
Peter Chow	BCTC
Rob Gorter	BCTC
Ester Montgomery	BCTC
Paul Kam	BCTC
Lloyd G. Guenther	LSM Consulting (JIESC)
Dave Newlands	Elk Valley Coal
Leigha Worth	BCPIAC
Dan Potts	Joint Industry Electricity Steering Committee
Pierre Lamarche	Howe Sound Pulp & Paper Limited Partnership
Eileen Cheng	British Columbia Utilities Commission
Brian Wallace	Bull, Housser & Tupper LLP (JIESC)
Jim Fraser	British Columbia Utilities Commission
Tom Loski	Terasen Gas Inc.
Dave Pettula	Terasen Gas Inc.
Stan Crocker	Terasen Gas Inc.
William Andrews	BCSEA
Richard Tennant	Van Port Sterilizers Inc.
Mike Filippelli	ERCO Worldwide
Tom Miller	ERCO Worldwide
Fred Weisberg	Weisberg Law Corporation
Craig Widsten	Shearwater Marine Group
Penny Cochrane	Willis Energy Services
Chelsea D. Wilson	Lawson Lundell LLP
Edlira Gjoshe	BCTC
Christopher P. Weafer	Owen Bird Law Corporation, counsel to the Commercial Class Energy Consumers Association of B C
Dave Bennett	Fortis BC
Brian Parent	Fortis BC
Chris Weafer	Owen Bird (Commercial Energy Consumers Association)

BC HYDRO PROJECT TEAM

Name	Organization & Department
Virginia Le	BC Hydro
Fred James	BC Hydro
Jane Christensen	BC Hydro
Basil Stumborg	BC Hydro
Allan Chung	BC Hydro
Susanne Lee	BC Hydro
John Vandespyker	BC Hydro
Janet Stewart	BC Hydro

OBSERVERS

Name	Organization & Department
John Vandespyker	BC Hydro
Christine Iamonaco-Dagg	BC Hydro
Joanna Sofield	BC Hydro
Michelle Brenton	BC Hydro
Jennifer Ryan	BC Hydro
Krista Richmond	BC Hydro

MEETING OBJECTIVES

- The overall objective of this meeting was to increase the understanding behind the Cost of Service study in order to:
 - generate more support for its conclusions;
 - generate support for the rate rebalancing effort; and
 - reduce the time and effort spent in the regulatory forum.

Agenda

Day 1 – Thursday September 22

1. Introduction and Welcome
2. Cost of Service Study
3. Rate Rebalancing
4. Next Steps
5. Lunch

HANDOUTS PROVIDED AT THE MEETING

Paper copies of the following materials were distributed at the meeting.

Item	Description
BC Hydro Cost of Service Study and Rate Rebalancing	A PowerPoint presentation describing the Cost of Service Model, the rationale behind the Cost of Service Study, assumptions, sensitivities, and several rate re-balancing scenarios.

PRESENTATIONS DELIVERED AT THE MEETING

The following presenters used the Cost of Service and Rate Rebalancing handout and overheads to guide their portions of the discussions.

Item	Description
Fred James	Introductions
Arnie Reimer / Wayne Taylor	Cost of Service Model
Basil Stumborg	Rate Rebalancing Discussions, Next Steps

AGENDA ITEM #1 – Welcome and Introductions

Fred James welcomed the group to the meeting and reviewed the meeting objectives and agenda.

AGENDA ITEM #2 – Cost of Service Study

Arnie Reimer, consultant to BC Hydro (BCH), presented the overall objectives, principles, methodology, and results of the F2008 cost of service study (COS), which will be filed as part of BC Hydro's rate design application (RDA). This presentation also presented the key assumptions regarding the classification and allocation of costs. These assumptions were varied in a sensitivity analysis to highlight the impact of changes to these assumptions.

Issues raised during the workshop included the following:

1. The purpose of a cost of service study. The group had different opinions about whether Hydro's goal of filing an updated Rate Design Application every 2-3 years presented too much regulatory activity or not.
2. The possibility of introducing new rate classes, such as separate rate classes for low/high load factor customers.
3. It was pointed out that BC Hydro's presentation blurred the distinction between energy efficiency and energy conservation where these are distinct and not always complementary goals.
4. Some participants wanted further information on the costs to provide service in specific non-integrated areas.

5. The group discussed the appropriate assumption for examining the role of coincident peaks in demand allocation and system design, and requested results that would occur using different approaches.
6. Need to identify changes in methodology for allocations.

Question for follow-up after the meeting:

Question #1 – is the load constraint a domestic calculation only in the graph shown by BC Hydro (Slide 18) or does it include trade?

Answer #1 – This load constraint is a domestic calculation and does not include trade [Confirmation from BCTC will follow].

Question #2 - Are there any significant differences in the methodology/principles between the F2008 COS and the last submitted COS?

Answer #2 - In general, there have not been any major changes in the principles driving the COS methodology in the 1998 study as compared to the current COS study. In particular, the following are unchanged from the 1998 cost of service study:

- Generation-Related Transmission Assets (GRTA) are functionalized as Generation.
- Power Smart/DSM costs are functionalized 10% to Transmission and 90% to Distribution.
- Hydro generation is classified as 50% demand-related and 50% energy-related.
- Thermal generation is classified as 100% demand-related.
- Demand-related generation and transmission costs are allocated to rate classes based on 12 CP.

Question #3 - How does BC Hydro allocate corporate costs such as executive compensation?

Answer #3 - Executive costs are allocated to the lines of business based on their proportionate share of OMG&A costs and sustaining capital expenditures. Please refer to pages 2-29 and 2-30 in BC Hydro's F07/F08 Revenue Requirement Application for more detail on the allocation of corporate costs

Question #4 - Could BC Hydro provide a summary report on the load profile data used in the COS?

Answer #4 - Please find enclosed an example calculation, attached at the end.

Question #5 - How does BC Hydro factor major changes (such as Mica and Revelstoke) into its COS process?

Answer #5 - Mica and Revelstoke will not be in service in F2008 and the current COS study pertains to F2008. Once those facilities are in service, they will be incorporated in the COS, as appropriate.

AGENDA ITEM #3 – Rate Rebalancing

Arnie Reimer's presentation ended by showing the Revenue to Cost ratios for each customer class. Basil Stumborg picked up the presentation at that point to discuss with the group the concept of rate rebalancing. The objective of this discussion was to get feedback from the group whether:

- The rates needed to be rebalanced at all; and if so,

- How close to unity (R/C = 100%) is “fair enough”, and
- What other issues does BC Hydro have to attend to in achieving fairness.

Issues raised during this part of the workshop included the following:

1. The appropriate target for revenue to cost ratios (i.e., whether the target should be 100% of cost, or whether the target should be to have all rate classes within a certain range of 100% of cost). It was highlighted to the group that these bands should become narrower as the ability to collect customer information improved, but that information would never be perfect enough to say that unity (R/C = 100%) was “correct”. Some in the group felt that this and future RDAs should always be trying to move in that direction, and that a perfect balance should be a goal for future RDAs.
2. Rate Shock issues
 - a. Some participants wanted BC Hydro to define what it meant by “rate shock”, the rationale behind this definition, and an explicit description around how this concept does (or does not) influence their rate design.
 - b. Some in the group showed sensitivity to other rate classes that would experience large bill increases. While no specific direction was given, there was a general feeling that “going slow” was an acceptable way to mitigate rate shock in many cases.
 - c. Some in the group was also sensitive and voiced concerns around low-income customers that may not have the flexibility to adapt over time to rate increases. These participants felt that BC Hydro would need to identify and help mitigate impacts to those most severely affected by rate design changes.
 - d. Some large-volume 1211 customers would experience large rate increases, perhaps requiring a separate rate class due to their load profile.
3. Moving irrigation rates towards unity
 - a. There was a broad feeling that moving the irrigation rates towards unity was the correct option;
 - b. The group was sensitive to the large impacts on irrigation customers if this move happened too quickly;
 - c. Some participants suggested that if this change is handled poorly, then the amount BC Hydro would have to spend in extra communications and public relations could approach the amount that other rate classes would be benefiting.
 - d. Several members wanted BC Hydro to lay out a longer-term plan that would move the irrigation rates closer to unity.
 - e. It was suggested that irrigation rates may be no different from interruptible or off-peak seasonal and the R/C may be inappropriate.

AGENDA ITEM #4 – Next Steps

Participants raised the possibility of achieving a consensus view on some or potentially all of the rate design issues prior to the filing of the application, due by March 15, 2007.

The following were defined as the next steps:

1. The attendees were requested to contact Fred James by end of day January 31, 2007, with suggestions on how to proceed.
2. A further meeting will be held on February 22 or 26. [Post meeting note – February 26th is the suggested date for the next meeting].

Example Data for Question #4 – Load Profile Data Used COS.

F2005 - Load by Rate Class for Peak System Load Hour for each Month

Month	Time (Hr Start)	Res	GS<35 kW	GS>35 kW	Streetlights	Irrigation	Transmission	Tot Sales
Apr	4-2-04 8:00	2,277,159	563,934	2,086,235	-	-	2,078,124	7,005,452
May	5-4-04 9:00	1,602,634	689,731	2,241,254	-	-	2,043,863	6,577,482
Jun	6-21-04 10:00	1,655,748	744,237	2,412,563	-	39,366	2,053,662	6,905,577
Jul	7-23-04 11:00	1,608,605	743,450	2,393,261	-	39,366	2,100,212	6,884,894
Aug	8-16-04 12:00	1,640,889	764,218	2,354,516	-	39,366	2,074,702	6,873,690
Sep	9-20-04 8:00	1,929,390	580,243	2,148,279	-	-	2,037,645	6,695,557
Oct	10-28-04 7:00	2,642,547	566,095	2,243,862	7,998	-	2,012,366	7,472,869
Nov	11-29-04 17:00	3,781,554	575,999	2,001,993	47,700	-	2,041,507	8,448,754
Dec	12-6-04 17:00	4,263,239	608,393	2,012,035	47,700	-	2,014,356	8,945,723
Jan	1-13-05 17:00	4,433,701	653,397	2,084,451	47,700	-	2,232,956	9,452,205
Feb	2-7-05 9:00	3,111,896	701,926	2,393,415	-	-	2,063,988	8,271,226
Mar	3-18-05 9:00	2,476,019	723,780	2,256,787	-	-	2,068,100	7,524,686
Contribution to Peak								
Apr		32.51%	8.05%	29.78%	0.00%	0.00%	29.66%	100.00%
May		24.37%	10.49%	34.07%	0.00%	0.00%	31.07%	100.00%
Jun		23.98%	10.78%	34.94%	0.00%	0.57%	29.74%	100.00%
Jul		23.36%	10.80%	34.76%	0.00%	0.57%	30.50%	100.00%
Aug		23.87%	11.12%	34.25%	0.00%	0.57%	30.18%	100.00%
Sep		28.82%	8.67%	32.09%	0.00%	0.00%	30.43%	100.00%
Oct		35.36%	7.58%	30.03%	0.11%	0.00%	26.93%	100.00%
Nov		44.76%	6.82%	23.70%	0.56%	0.00%	24.16%	100.00%
Dec		47.66%	6.80%	22.49%	0.53%	0.00%	22.52%	100.00%
Jan		46.91%	6.91%	22.05%	0.50%	0.00%	23.62%	100.00%
Feb		37.62%	8.49%	28.94%	0.00%	0.00%	24.95%	100.00%
Mar		32.91%	9.62%	29.99%	0.00%	0.00%	27.48%	100.00%
12 CP		33.51%	8.84%	29.76%	0.14%	0.14%	27.61%	100.00%