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**1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.1 BC Hydro developed Section 17 (Addendum 10) in response. As it stands now has it ever been reviewed by the BCUC?

**RESPONSE:**

**This proceeding constitutes the review contemplated by the BCUC in its 23 January 2004 letter.**

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## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

- 1.1.2 Was the Independent Reviewer involved in the development of Section 17 or the process surrounding the Cost Effectiveness analysis?

### **RESPONSE:**

**As noted in the response to BCUC IR 2.71.1.1, the Independent Reviewer was integrally involved in all revisions to the CFT and the EPA, including all CFT Addenda. Thus, the Independent Reviewer monitored the development of Addendum 10 (including amendments to section 17).**

**With regard to the Cost Effectiveness analysis, the Independent Reviewer's role was confined to the determination of the least cost portfolio based on the Quantitative Evaluation Methodology. The Independent Reviewer was not involved in the Cost Effectiveness outlined in Appendix J of the CFT Report given that this was supplementary analysis done for BC Hydro's senior management and outside of the purview of the CFT.**

## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

- 1.1.3 When Section 17 was developed was the updated load forecast analysis completed and available to those developing the process?

### **RESPONSE:**

**The 2004 Load Forecast which was filed with the CFT Report was completed in October 2004.**

**Both the December 2003 and 2004 load forecast resulted in a higher supply shortfall for Vancouver Island in 2007/08 than was used for the initial issuance of the CFT on 31 October 2003. However, the required portfolio size remained unchanged at 150 to 300 MW throughout the duration of the CFT. When section 17 of the CFT was amended in early March 2004, BC Hydro had preliminary information on peak requirements arising from the January 2004 historic peak. This preliminary information suggested that the peak requirements for Vancouver Island were higher than those forecast in the 2003 load forecast filed with the Revenue Requirement. However, the 2004 final load forecast confirming the peak requirements was not completed until October 2004.**

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## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

- 1.1.4 In developing Section 17 and the cost effectiveness analysis, what baseline variables were used (such as the load forecast) or assumptions were made by those developing the process?

### **RESPONSE:**

**Please see BC Hydro's response to Gold River IR 1.1.3. The amendments to section 17 of the CFT were not based on updated inputs but reflected BC Hydro's response to BCUC's letter of 23 January 2004, in which the Commission expressed the view that projects sized as low as 115 MW should be considered if the CFT process failed to provide bids aggregating to 150 MW or more of capacity.**

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**1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.5 When was the cost effectiveness analysis process completed (the development of the process not the actual undertaking)?

**RESPONSE:**

**The development of cost effectiveness analysis occurred in mid-October 2004.**

## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

- 1.1.6 In developing the cost effectiveness analysis, Hydro states that “..to fairly compare the three CFT outcomes, it is necessary to equalize both the energy and the capacity being added to the system under each of the three CFT outcomes.”

Was the method used the only way to “equalize” the three outcomes.

### **RESPONSE:**

**To conduct a simplified cost effectiveness analysis, it was necessary that all portfolios have the same annual energy capability and dependable capacity capability as of the year that new resources were needed for the system as a whole. This meant that all portfolios had the same generating capability as of 2009 and thereafter.**

**To equalize the annual energy and dependable capacity of all three portfolios required setting the amount of annual energy in each portfolio equal to the portfolio that had the largest energy capability. That was the Tier 1 portfolio.**

**BC Hydro believes its method for equalizing the portfolios was an appropriate approach for this simplified cost effectiveness analysis and produces a reasonable proxy to a more comprehensive system-based analysis such as that used in the 2004 IEP.**

## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

- 1.1.7 BC Hydro states in its cost-effectiveness policy paper "The latest BC Hydro load forecast shows Vancouver Island has a capacity requirement of 261 Mw in fiscal 07/08."

When was that statement developed?

### **RESPONSE:**

**BC Hydro's 2004 load forecast was completed in October and filed in November 2004. The increased peak capacity requirements for Vancouver Island pursuant to 2004 load forecast were applied to the cost effectiveness analysis. BC Hydro had earlier identified capacity requirements increases beyond that established as the minimum for the CFT as far back as October 2003 and again in January 2004 following the historic peak experience. BC Hydro chose not to increase the minimum threshold for the CFT requirements so as to continue to align with original BCUC directions which had established the design and structure of the CFT.**

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**1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.8 Was any gas price forecast risk factored into the Tier I option?

**RESPONSE:**

**Yes. Please refer to BC Hydro's response to BCUC IR 1.17.1.**

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**1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.9 Was the Independent Reviewer involved in the monitoring or review of the manner in which the Cost Effectiveness analysis was conducted?

**RESPONSE:**

**Please see response to Gold River IR 1.1.2.**

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## 1.0 Reference: Cost Effectiveness Analysis

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.10 Was section 17, specifically the cost effectiveness analysis, considered a part of the CFT process?

### RESPONSE:

**As indicated in the response to Gold River IR 1.1.5, the CFT gives BC Hydro senior management a discretion relative to rejecting all tenders or awarding one or more tenders aggregating less than 150 MW. The exercise of this discretion is therefore authorized under the terms and conditions of the CFT, although not part of the Quantitative Evaluation Methodology.**

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## 1.0 Reference: Cost Effectiveness Analysis

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.11 Did BC Hydro follow the commission panel's recommendation when developing the cost effectiveness analysis to accept a cost effective portfolio with dependable capacity as low as 115 Mw, before considering other resource additions than on-island generation?

### RESPONSE:

**In its VIGP Decision, the Commission encouraged BC Hydro to seek approval for projects with an aggregate capacity of at least 150 MW as long as each project was cost-effective. Only if aggregate capacity was less than 150 MW was BC Hydro encouraged to accept a portfolio as low as 115 MW prior to considering resource options other than on-Island generation.**

**Accordingly, BC Hydro undertook the Cost Effectiveness analysis to determine if the Tier 1 bid was cost-effective. Had the Tier 1 not been cost-effective, there would have been ~~no~~ a need to consider projects aggregating less than 150 MW.**

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## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.12 In referencing the Independent Reviewer's flow chart identifying the process and order that the CFT followed. Where is the Cost Effectiveness analysis?

### **RESPONSE:**

**The Cost Effectiveness assessment contained in Appendix J of the CFT Report was not part of the CFT process and thus was not included in the referenced flow chart.**

## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.13 What date did BC Hydro senior management request the cost effectiveness analysis and how long did it take to complete?

### **RESPONSE:**

**The cost-effectiveness analysis was requested on 14 October 2004 following the presentation and acceptance of the recommendations of the Quantitative Evaluation Committee (QEC) regarding the results of the Quantitative Evaluation Methodology. The cost-effectiveness analysis was completed prior to 20 October 2004, at which time senior management presented its CFT recommendations to BC Hydro's Board of Directors.**

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## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.14 Who was tasked with carrying out the cost effectiveness evaluation?

### **RESPONSE:**

**The cost-effectiveness analysis was carried out by Power Planning & Portfolio Management, which resides within BC Hydro's Distribution line of business.**

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## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.15 Was there any direction given by senior management with regard to the manner in which the cost effectiveness analysis would be undertaken?

### **RESPONSE:**

**Yes.**

**The direction was to complete a high level simplified analysis to check if there were any compelling reason to reject the results of a fair competitive process that provided a reliable solution for Vancouver Island's looming capacity deficit. Consistent with the definition of cost effectiveness in the VIGP decision senior management asked that reliability, timing, and other non-price factors be considered in reviewing the result.**

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**1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.16 Was there any uncertainty or confusion about how the cost effectiveness analysis should be conducted?

**RESPONSE:**

**No.**

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## 1.0 Reference: Cost Effectiveness Analysis

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.17 When were bidders informed of how the cost effectiveness analysis would be conducted?

### RESPONSE:

The cost effectiveness analysis was a high level review to determine if there were any compelling reasons to reject the competitively determined Tier 1 outcome. As indicated in the response to Gold River IR 1.1.5, BC Hydro's senior management had a discretion to reject all CFT tenders or to award EPAs aggregating less than 150 MW based on senior management's view of the cost-effectiveness of the Tier 1 outcome. Bidders were not informed of how this was conducted ~~when- until~~ BC Hydro filed its CFT Report to the Commission.

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## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.18 Does BC Hydro feel that the cost effectiveness analysis was handled in a manner that was consistent with the commission panel's recommendations?

### **RESPONSE:**

Yes.

BC Hydro believes the commission's recommendations were to meet Vancouver Island's peak capacity deficit via a competitive transparent process to secure at least a 150 MW new on island generation. The competitive process established the lowest cost new generation solution within the minimum requirements. A further due diligence check on the CFT result pursuant to a high level review of broader cost effectiveness considerations, consistent with the commission's direction in the VIGP decision, established that there was no compelling reason to reject the results of a fair competitive process.

## 1.0 Reference: Cost Effectiveness Analysis

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.19 On page 44 of the November 29, 2004 morning transcripts On behalf of BC Hydro Mr. Sanderson states that “In the expected conditions even at 150 Mw, I believe that it is right to say that Tier I is more attractive.”

Was that analysis run and if so why wasn't it presented? If not, Could BC Hydro conduct that analysis and state its assumptions and “expected conditions” it used.

### RESPONSE:

**Please see page 6 of Appendix J, showing the results of the 150 MW Load Requirement analysis. Thus, for example, the analysis under which Mainland generation costs the same as Island-based generation using a 250 MW CCGT and the 230 kV circuit is in place in 2010, the Tier 2 result has an NPV of costs that is \$53 million higher than the Tier 1 result, and the No Award result has an NPV of costs that is \$2 million higher than the Tier 1 result.**

## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115 MW.

1.1.20 What role did the Updated Load Forecast play in the development and computation of the cost effectiveness analysis?

### **RESPONSE:**

**The updated Load Forecast is used to:**

- 1. Determine the peak deficit in Vancouver Island starting from F2008. The peak deficit is used to determine the amount of bridging supplies needed under each of the 3 CFT outcomes.**
- 2. Determine the timing of the system needs for energy (i.e. when the “equalization of energy” described in the Cost Effectiveness Analysis Report, would commence).**

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## **1.0 Reference: Cost Effectiveness Analysis**

In its January 23, 2004 direction to Hydro the commission panel encouraged to accept a cost effective portfolio with dependable capacity as low as 115Mw.

1.1.21 How did Hydro come up with the 600 GW/h total energy production for the tier II scenario?

### **RESPONSE:**

**As noted in the Appendix J – Cost Effectiveness Analysis, in the Tier 2 case, the expected annual volume of total energy for the two projects was determined by the QEM dispatch model, using the information tendered for each project.**

## **2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

- 1.2.1 In the QEM, BC Hydro used two electricity price forecasts. They both used the Greenfield project as a baseline for future generation in both. Greenfield shows an average unit availability of 91.3%. Please explain what this means and identify how much the unit actually operated over the past year.

### **RESPONSE:**

**As described in section 3.4.2 of the Quantitative Evaluation Methodology, the electricity price forecasts beyond 2012 are derived from expectation of future CCGT plant costs. This methodology assumes specific CCGT performance and cost factors. The “unit average availability” of 91.3% refers to the percentage of the time the plant is assumed to be economically dispatched in the future.**

**BC Hydro has not simulated the operation of such a plant with recent historical prices, because it does not expect this level of prices to prevail.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

- 1.2.2 One of the electricity forecasts modeled a 25% capital cost recovery due to future risk involved with gas generation. What other factors other than price would alternative generating options produce? (for example other infrastructure costs, further development costs, reduced generation output.)

**RESPONSE:**

**For information on the development of the BC Hydro gas and electricity price forecasts, please refer to the response to BCUC IRs 1.13.1 and 1.14.5.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

- 1.2.3 The VI CFT QEM description revised August 6<sup>th</sup>, 2004 contains the following statement. “The QEM does not involve subjective assessments other than those applied to construct the underlying assumptions and input data of the evaluation model.” Please identify what those subjective assessments were and the input data that resulted from them.

**RESPONSE:**

**The interpretation of complex forecasts for the exchange rate, inflation rate and energy prices required the exercise of professional judgement.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.4 Which individuals formed the QEC?

**RESPONSE:**

**Chair: David Ince (BC Hydro Manager, Portfolio Management)  
Dean Cardino (BC Hydro, Analyst)**

**Independent  
Reviewer: Mark Liedemann (Lead Analyst, PriceWaterhouseCoopers)**

## **2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.5 What value was given to dispatchability in the QEM?

### **RESPONSE:**

**Dispatchability is implicitly valued in the computation of the Energy Margin for each project, as determined by the QEM. The magnitude of the Energy Margin depends on a project's variable cost of production (lower variable cost = higher Energy Margin), and on the degree of dispatching flexibility the plant can offer (higher flexibility = higher Energy Margin). The variable cost of production depends on certain tendered parameters, such as the Energy Charge and the heat rate (if tolling). The degree of dispatching flexibility depends on other tendered parameters, such as the must run designation, minimum turn down capability, ramp-up times, and the maximum number of starts per year.**

**In general, the more dispatchable the plant the more highly it is valued in the QEM. For example, dispatchable plants may be modeled as dispatched-off during periods in which the plant variable costs exceed the electricity market price. Must-run plants are modeled as running during these periods and incurring a negative energy margin.**

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## **2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

- 1.2.6 In order to fairly evaluate generation possibilities required to meet the capacity needs of Vancouver Island, is it absolutely necessary to ensure that projects are run through a CFT style process and meet the required criteria in order to guarantee a valid conclusion?

### **RESPONSE:**

**Yes. To meet Vancouver Island's critical reliability requirements, BC Hydro used the CFT process to establish common mandatory criteria that allowed for binding competitive bids to provide date certain capacity. The CFT process is also consistent with BC Hydro's commitment to competitively source new generation.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.7 How did BC Hydro determine that the DPPLP project would return 1800 GW/h per year of energy?

**RESPONSE:**

**The spreadsheet models used in the Quantitative Evaluation Methodology were used to calculate the monthly electricity production of each tendered project, including the Duke Point project.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.8 Why did the QEM only utilize one gas price forecast?

**RESPONSE:**

**Please see BC Hydro's response to BCUC IR 1.13.1.**

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## **2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.9 Were the electricity price forecasts that BC Hydro used in the QEM consistent with others that they have presented to other bodies – such as the Crown Corporations committee?

### **RESPONSE:**

**Yes, at various times, BC Hydro has provided electricity price forecasts to other bodies, including government. In all cases, these forecasts are taken from BC Hydro's price forecasting process. The evolution of BC Hydro's price forecasting process and its application to the CFT process are described in BC Hydro's response to BCUC IR 1.13.1.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.10 Is the OMC payment made to the seller based on the bid capacity or the actual capacity/energy produced?

**RESPONSE:**

**In the QEM, the OMC payment is based on the bid capacity after giving effect to the capacity degradation factor, in the absence of actual performance information.**

**In the EPA, the OMC payment is based on actual performance as determined by the quarterly demonstration tests, and the payment is capped at 105% of the bid capacity after giving effect to the capacity degradation factor.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.11 If a plant is dispatched are the ratepayers of BC still paying for its availability? If so how and how much?

**RESPONSE:**

**Yes. Under the terms of the EPA, BC Hydro continues to pay the fixed charges regardless of whether the plant is producing energy, as long as the plant is capable of producing when asked by BC Hydro to do so. BC Hydro pays the variable charges only when the plant is producing energy as scheduled by BC Hydro.**

~~**As to how much, this information was filed confidentially to the Commission in response to BCUC IR 1.32.1.**~~

~~**Under the terms of the EPA, whether or not a plant is dispatched, BC Hydro pays the tendered Capital Charge.**~~

~~**For the Duke Point Power project, the tendered Capital Charge is \$12,029.17/MW/mo. See Appendix 3 of the EPA.**~~

## **2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.12 Under section 4.4 of the QEM BC Hydro states “For all evaluation purposes other than portfolio assembly under section 4.4, the QEM adjusts the tendered bid capacity...”

Why in all other evaluations but the portfolio assembly?

### **RESPONSE:**

The quoted phrase is in section 4.3.2 of the QEM, and refers to how the Capital Charges and the Operation & Maintenance Charges are reduced to an NPV for inclusion into the Net Tender Cost.

The adjustment was to account for the QEM impact on the Bid Capacity of the tendered values for the Capacity Adjustment Table, consistent with the treatment of such values in the EPA. Based on preliminary testing of the QEM using some expected values for these bid parameters, BC Hydro was satisfied that no further adjustment to the Bid Capacity was required for portfolio assembly purposes.

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.13 How much was the DPPLP project (the winning bid) dispatched when determining the energy margin?

**RESPONSE:**

~~This information was filed confidentially with the BCUC in response to BCUC IR 1.32.1.~~

Please see BC Hydro's response to JIESC IR 1.7.0 (c).

## **2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.14 Why in the tender variable cost calculation in the QEM are interruptible gas transportation costs used instead of firm gas transportation costs?

### **RESPONSE:**

**Interruptible gas transportation costs are variable; firm gas transportation costs are fixed. If a project is evaluated using interruptible gas transportation, such costs would by definition need to be part of the variable cost calculation as they would impact the dispatch pattern of that project. If a project is evaluated using firm gas transportation, such costs would not be a part of the variable cost calculation but instead would be added as a lump sum net present value, at the portfolio level.**

**In the QEM, interruptible gas transportation costs would only be used for a project if: (1) the project being assessed had adequate dual fuel capability; and (2) BC Hydro determined that there would be adequate interruptible gas supply available for that project to meet the Dependable Capacity criteria in the CFT. In terms of the tenders submitted to the CFT, neither condition was ever met and hence no interruptible gas transportation costs were used in the QEM.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.15 What was the DPPLP project's adjusted Bid Capacity?

**RESPONSE:**

**This information was filed confidentially with the Commission in response to BCUC IR 1.9.3.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.16 Do interruptible gas transportation costs include any risk premium?

**RESPONSE:**

**Interruptible gas transportation costs do not include any cost risk premium. Please see BC Hydro's response to BCUC IR 1.23.6 for an explanation of how interruptible gas transportation costs and tolls were used in the CFT evaluation.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.17 Implicit within a fair and competitive process is the notion that any bidder who meets all of the specified criteria will be at least evaluated.

Was the Green Island Energy project ever evaluated independently?

**RESPONSE:**

**Yes, all non-pricing Tender envelopes were opened and evaluated independently against all CFT Mandatory Criteria.**

**Given the size of the project and the size of the other projects tendered in the CFT process, it was not possible to assemble the project in a portfolio within the specified range in the CFT as part of the Tier 1 selection process. The results of the Tier 1 were determined to be cost-effective; therefore, BC Hydro did not proceed to Tier 2 project selection.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.18 With regard to the CFT process, BC Hydro states on page 29 of the November 29, 2004 transcripts that "...island generation solutions were considered only. No off-island (generation) were considered."

Does BC Hydro still maintain that position?

**RESPONSE:**

**Yes.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.19 Where did the margin of error used to set the minimum threshold for the CFT come from? How was it established?

**RESPONSE:**

**The margin of error for the 150 MW minimum threshold stemmed from the VIGP Decision (page 82) whereby the Commission concluded that an aggregate dependable capacity of at least 150 MW would provide a buffer beyond the 116 MW that it had concluded would be required in 2007/08.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.20 Does BC Hydro agree with Mr. Sanderson's contention on page 36 of the November 29, 2004 morning transcripts that "The CFT process was a process run by the book and according to the book?"

**RESPONSE:**

**Yes.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.21 Was the QEM an unbiased and fair means to evaluate the cost effectiveness of the qualifying portfolios?

**RESPONSE:**

**Yes. Please see the Independent Reviewer's reports in Appendix K to the CFT Report.**

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## **2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.22 If the CFT was a “work in progress” as identified by the commission panel, why didn't BC Hydro if it was aware of the revised load forecast use it within the CFT?

### **RESPONSE:**

**The revised Electric Load Forecast prepared in October 2004 could not be used for CFT evaluation purposes because it came well after the 06 August 2004 deadline for revisions to the CFT. Under the rules for the CFT, BC Hydro was not allowed to make any changes to CFT within one week of the Tender Closing Time of 13 August 2004.**

**BC Hydro considered using updated load forecast information that pointed to higher peak requirements at various points in developing the CFT. However, BC Hydro was concerned that revising the minimum portfolio threshold would be inconsistent with the BCUC findings, which informed the CFT design.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.23 Would it be fair to say that in assessing the DPPLP project's cost-effectiveness under the terms of the CFT, essentially it was only compared to three other gas fired projects?

**RESPONSE:**

**No.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.24 As the number of starts per year helps to identify the number of times that a project is expected to be dispatched, and the energy that it can generate, how many maximum starts per year were associated with the winning bid?

**RESPONSE:**

**This information was provided to the Commission in confidence on 19 November 2004.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.25 What average hydrological conditions did Hydro use when conducting the analysis? (the last year , two years, five year average etc.)

**RESPONSE:**

**The QEM did not include hydrological conditions in evaluating tenders or portfolios. System hydrological conditions were not relevant to the analysis as the CFT was a call for dependable capacity and based on individual project availability.**

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**2.0 Reference: The CFT and the Quantitative Evaluation Methodology (QEM)**

1.2.26 Has BC Hydro attained all of the necessary permits to allow DPPLP to

**RESPONSE:**

**The list of assets, including all permits received to date, are listed in Appendix 4 and Appendix 5 of the VIGP Transfer Agreement. These assets will be transferred to DPPLP on an “as is, where is” basis, upon the closing of the VIGP Transfer Agreement. The obligation to ensure all necessary permits are received resides with DPPLP.**

### **3.0 Reference: Gas Supply and Transportation**

- 1.3.1 Why was the TGVI tolling option used in the CFT analysis when it had not even been approved and why weren't the variety of possibilities that Mr. Sanderson stated on November 29, 2004 (with regard to gas supply options) modeled and averaged?

#### **RESPONSE:**

**For the purpose of CFT evaluation, BC Hydro assumed that gas transportation would involve an arrangement with TGVI for delivery of gas to gas-fired tolling projects submitted into the CFT process. As explained by Mr. Sanderson in the 29 November 2004 procedural conference (Transcript Volume 1, pages 75 and 76), BC Hydro is relied on the responsible utility, TGVI, to estimate tolls applicable to the incremental gas demands that might arise from the various gas-fired tolling projects under consideration in the CFT.**

**These estimates were used over the entire lives of the gas-fired tolling projects, in accordance with the Commission's request that the NPV model be a simplified, transparent model.**

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### **3.0 Reference: Gas Supply and Transportation**

- 1.3.2 Due to the variability in gas prices, what modeling did BC Hydro do to determine how often during the year that gas prices would exceed the projected levels and would therefore cause BC Hydro to “dispatch” the DPPLP plant?

#### **RESPONSE:**

**Using the CFT evaluation spreadsheet, BC Hydro modelled tendered dispatchable generation so that `generation of electricity would occur when plant variable costs were *below* the forecast electricity price.**

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### **3.0 Reference: Gas Supply and Transportation**

- 1.3.3 Does BC Hydro contend that regardless of the price of gas, it will operate the DPPLP plant during peak load periods due to the supply requirements on Vancouver Island for the next 25 years?

#### **RESPONSE:**

**During periods when the DPPLP plant is required to meet peak load on Vancouver Island, BC Hydro will operate it regardless of the gas price. At other times, the plant will be dispatched on an economic basis based on the cost of gas and the value of energy. The degree to which the plant will be required to meet peak load will vary over its lifetime and depend on weather, equipment outages, load growth and the in-service date of the 230 kV circuit.**

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### **3.0 Reference: Gas Supply and Transportation**

1.3.4 With regard to GSX Costs:

- i) What costs have been incurred on GSX to date?
- ii) What costs have be written off or a provision be taken for?
- iii) What possible outstanding legal and economic liabilities does BC Hydro have should GSX not proceed?
- iv) Why aren't these factored into the gas supply analysis?

#### **RESPONSE:**

**This Information Request is out of scope.**

### **3.0 Reference: Gas Supply and Transportation**

1.3.5 With regard to gas supply and the total gas use over the past 5 years and projections for the future 25 years:

- i) Please detail the length of purchase contract.
- ii) Please detail the length of transportation contract.
- iii) Please detail the cost per MW in NPV of power generated at Burrard Thermal.
- iv) Please detail the cost per MW in NPV for power generated at ICP.

#### **RESPONSE:**

##### **1.3.5(i)**

**Over the past five years, BC Hydro has typically purchased gas in the zero to one-year time frame. Current forward fixed price gas positions extend to the end of F2005.**

##### **1.3.5(ii)**

**BC Hydro has been supplying gas to ICP since April 2002 under short-term agreements with TGVI. BC Hydro currently has no long-term contracts with TGVI for gas transportation service to ICP or Duke Point. Please see BC Hydro's responses to BCUC IRs 1.23.4 and 2.47.9.**

##### **1.3.5(iii)**

**BC Hydro is unable to provide the information specifically as requested, however, a close approximation can be derived based in information provided in response to IPPBC 59.1 as part of BC Hydro's Revenue Requirements 2004/05 and 2005/06 Application. Based on Burrard Generating Station's current and projected dependable capacity of 456 MW, the plant's average cost per MW from F2002 to F2006 is approximately \$0.14 million per MW**

##### **1.3.5(iv)**

**Under the EPA, BC Hydro is obligated to treat such information as confidential.**

**59.0 Reference: Application, Volume 1, Chapter 5, p. 15**

- 1.59.1 Please provide the historical and targeted “unit cost of production” separately for the Burrard Generation Station. Include the targeted capacity factor.

**RESPONSE:**

(\$ millions)	Actual F2003	Forecast F2004	Plan F2005	Plan F2006
Cost of Energy	\$17.4	\$16.8	\$17.9	\$13.8
Operating, Maintenance, General and Administration Costs	14.2	13.6	12.4	12.5
Asset Related Expenses				
Depreciation	11.8	16.1	24.4	21.8
Taxes and Grants	1.5	1.5	1.5	1.5
Finance Costs <sup>1</sup>	9.2	9.7	8.4	7.8
Return on Equity <sup>1</sup>	8.5	8.7	7.9	7.0
Less: Miscellaneous Revenues	(1.3)	(1.3)	(1.6)	(1.5)
Revenue Requirement	<u>\$61.3</u>	<u>\$65.1</u>	<u>\$70.9</u>	<u>\$62.9</u>
Generation Supply - Burrard (in GWh's)	<u>110</u>	<u>91</u>	<u>102</u>	<u>41</u>
Unit Cost of Production (\$ per MWh)	<u>\$557.3</u>	<u>\$715.4</u>	<u>\$695.1</u>	<u>\$1,534.1</u>
Capacity Factor <sup>2</sup>	<u>1%</u>	<u>2%</u>	<u>3%</u>	<u>1%</u>

Note 1: Finance Costs and Return on Equity have been allocated to Burrard based upon net book value at the end of each fiscal year.

Note 2: Assumes starting in F2004, only three units of Burrard Generating Station are used for energy generation.

**Burrard Generating Station is currently being utilized for dependable capacity and is providing voltage support. Dispatch of Burrard Generating Station for energy is available, but is expected to be insignificant due to the high cost of dispatch over the next two to three years relative to the cost of purchasing energy from the market. The high cost of production and low capacity factors shown in the table above for Burrard Generating Station are reflective of a facility that is not being used as an energy resource.**

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#### **4.0 Reference: Transmission Considerations**

- 1.4.1 What transmission options are available to increase the life or the rating of the HVDC cables? (refer to BCTC if unable to answer)

#### **RESPONSE:**

**This Information Request is out of scope.**

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#### **4.0 Reference: Transmission Considerations**

1.4.2 What were the line upgrade costs attributed to the Tier II option?

**RESPONSE:**

**Please see BC Hydro's response to JIESC IR 1.6(a).**

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**5.0 Reference: None**

1.5.1 BC Hydro stated on January 13, 2004 that the 23 bidders registered for the CFT indicates a robust competition.

Does Hydro conclude based on the number of projects evaluated that it was indeed a robust competition?

**RESPONSE:**

**Yes.**

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**5.0 Reference: None**

1.5.2 How many possible portfolio outcomes were identified by BC Hydro when 23 bidders registered for the VI CFT? (ask your VP distribution, she already gave me the answer once)

**RESPONSE:**

**In many cases the prequalification submissions included preliminary project data. The hypothetical expected number of portfolios based on this preliminary data was in the order of 400.**

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**5.0 Reference: None**

1.5.3 Did the CFT to identify all possible options for meeting the capacity and shortfall needs on Vancouver Island – or due to specific criteria did it eliminate some?

**RESPONSE:**

**The CFT was open to all on resource options located on Vancouver Island that met specific criteria necessary to meet VI's dependable capacity shortfall.**

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**5.0 Reference: None**

1.5.4 In BC Hydro's response to questions asked in the CFT initial review it stated "Peak shaving measures should not be included until they have been demonstrated to be reliable and a normal means for reducing firm peak loads."

Does BC Hydro accept the notion that new and more cost effective generation or supply options may become available in the future than simply those that they evaluated in the CFT?

**RESPONSE:**

**This Information Request is out of scope.**

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**5.0 Reference: None**

1.5.5 Did the involvement of the Independent Reviewer ensure that the CFT process was followed in a fair and transparent manner?

**RESPONSE:**

**Yes. In the findings of *Report No. 4 of the Independent Reviewer* (see Appendix K-4 of the CFT Report), PricewaterhouseCoopers stated the following: “With respect to the conduct of BC Hydro of the entire CFT process, it is our finding that it was a competitive process and conducted in a transparent and fair manner.”**

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**5.0 Reference: None**

1.5.6 Why didn't the Independent Reviewer report to the commission as encouraged by the BCUC?

**RESPONSE:**

**In the VIGP Decision (page 80), the Commission Panel encouraged BC Hydro to have the Independent Reviewer report to a Commissioner, who would then not sit on any BCUC panel required to hear an application for approval of the selected CFT resource addition. Subsequent to the Decision, BC Hydro identified concerns with respect to the extent of reliance it could place on views expressed by the designated Commissioner. Based on these concerns, BC Hydro wrote to the Commission seeking to establish a process that would involve the full Commission panel. In a letter to BC Hydro dated 24 October 2003, the Commission accepted BC Hydro's proposal for regulatory review of the CFT terms and acknowledged its willingness to have BC Hydro file the report of the Independent Reviewer with the Commission as opposed to an independent Commissioner by mid-December 2003.**

**5.0 Reference: None**

1.5.7 With regard to the Hydro's gas portfolio:

- i) BCH stated at the CFT announcement that it can hedge gas costs across its gas portfolio. What is the cost that BC Hydro attributes to hedging gas prices?
- ii) How will BC Hydro hedge these costs?
- iii) Please detail the BC Hydro gas portfolio.

**RESPONSE:**

**1.5.7(i)**

**BCH does not forecast any cost for hedging gas prices.**

**1.5.7(ii)**

**BC Hydro is developing a hedging plan for its gas requirements. Although not finalized, this plan will generally involve forward hedging of gas according to a fixed schedule. It will include triggers to consider additional purchases when gas prices reach historic lows. In most circumstances, transactions will likely be limited to the zero to three-year time frame, which coincides with the most liquid part of the forward curve. This approach will limit BC Hydro's exposure to short-term jumps in prices and mitigate the impact of longer-term price shifts, while allowing BC Hydro to benefit to some extent from price declines.**

**BCH hedges gas according to the BC Hydro-Powerex Transfer Pricing Agreement. Please see the response to BCUC IR 1.17.4.**

**1.5.7(iii)**

**Please see the response to BCUC IR 1.23.2.**

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**5.0 Reference: None**

1.5.8 Did the president of BC Hydro ever make statements regarding portfolio assembly possibilities – specifically the combination of a Duke Point Project and the Green Island Energy project?

**RESPONSE:**

**To the best of the recollection of Mr. Bob Elton, President and Chief Executive Officer of BC Hydro, no statements were made about portfolio combinations of this nature.**

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**5.0 Reference: None**

1.5.9 Does BC Hydro keep and have records of public input and comments received relative to the CFT process?

**RESPONSE:**

**All bidder-related documentation was recorded and filed. Public input records were kept on a best efforts basis.**

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**5.0 Reference: None**

1.5.10 BC Hydro stated in its address to the BCUC on November 29, 2004 that "The commission is empowered to step in where it sees a threat to the public interest. Thus, commission involvement in the review of EPA's is by exception as opposed to routine.

In making that assertion, does BC Hydro feel that the public interest is not at stake or in question in these proceedings?

**RESPONSE:**

**No.**

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**5.0 Reference: None**

1.5.11 On page 23 of the morning transcripts from November 29, 2004 BC Hydro states that many of the risks are now being undertaken by a private party. Could BC Hydro please identify those risks and those that will remain with BC Hydro?

**RESPONSE:**

The principal risks transferred to the private party are (i) the capital cost risk, (ii) the operating and maintenance cost risk, (iii) the schedule risk, (iv) the performance or technological risk, (v) the heat rate risk, (vi) the risk of change in law, and (vii) the liability risk associated with GHG emissions. The principal risks remaining with BC Hydro are (i) the availability and price risks associated with gas commodity, (ii) the availability and price risks associated with gas transportation, (iii) the cost and timing risks associated with new network upgrade infrastructure, and (iv) the risk of transmission outages and force majeure events affecting BC Hydro's ability to receive energy. Like all contracts, the EPA also allocates a wide range of other somewhat less significant risks.

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**5.0 Reference: None**

1.5.12 What was the absolute need (capacity) that BC Hydro needed to satisfy in the VI CFT?

**RESPONSE:**

**At the time of the VIGP hearing, BC Hydro estimated that the supply shortfall on Vancouver Island in 2007/08 would approximate 213 MW. In its VIGP Decision, the Commission adjusted the demand/supply figures for Vancouver Island such that the supply shortfall in 2007/08 was reduced to 116 MW. However, the BCUC recognized that a supply buffer was required and suggested that BC Hydro could seek capacity of at least 150 MW. Accordingly, upon its issuance on 31 October 2003, the CFT was designed to accommodate minimum capacity of 150 MW.**

**While the expected capacity deficit was ultimately identified to be higher pursuant to the 2004 Load Forecast, the CFT minimum threshold was not adjusted.**

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**5.0 Reference: None**

1.5.13 Does BC Hydro believe that it included in the VI CFT process all of the recommendations or suggestions that the Commission panel made to them?

**RESPONSE:**

**BC Hydro considered and responded to all the directions and suggestions in the VIGP Decision and in the Commission's letter to BC Hydro dated 23 January 2004.**

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**5.0 Reference: None**

1.5.14 If not, which ones did they not incorporate and why?

**RESPONSE:**

**Please see the response to Gold River IR 1.5.13.**

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**5.0 Reference: None**

1.5.15 When were BC Hydro and its senior executives aware of the bid sizes that were tendered?

**RESPONSE:**

**16 August 2004.**

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**5.0 Reference: None**

1.5.16 Does BC Hydro continue to contend that everybody knew all of the time what BC Hydro was asking for and how the bidding process was evolving?

**RESPONSE:**

**The CFT was a transparent process that clearly established the mandatory criteria for the dependable capacity sought for Vancouver Island. All bidders had access to ongoing web based Question and Answers and were notified promptly of all addenda. Additionally, bidders participated in three workshops with presentations and had ample opportunity for Questions and Answers and provided several rounds of written comments on the preliminary forms that were also posted (in clean and blacklined versions) on the CFT website.**

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**5.0 Reference: None**

1.5.17 Which committees and panels was Ms. Mary Hemmingsen involved with?

**RESPONSE:**

**Ms. Hemmingsen was the Chair of the CFT Project Management office. As shown in the CFT Report Appendix K, Item 4, Appendix D, all material decisions concerning tenders and projects were made by the PMO on a blind basis, based on recommendations made by the various tender committees. Following acceptance of the QEM results form, the QEC blinding was removed and Ms. Hemmingsen presented the results of the CFT to the BC Hydro executive.\_**

**5.0 Reference: None**

1.5.18 With regard to the implied 50 million dollar recovery by BC Hydro should DPPLP move forward:

- i) Will this form part of the IPP's capital charge?
- ii) Will BCH pay a ROI on this amount?
- iii) Will the IPP recover interest on these sums?
- iv) Will there be any escalators attached to these charges?
- v) How does this compare to carrying costs that BCH would incur if held on its own books?

**RESPONSE:**

**1.5.18(i)**

**DPPLP bid a specified number for its capital charge, which is what all bidders were required to do. BC Hydro does not know how bidders determined the amount of capital charge they bid, or what they include in it. Similarly, whether bidders included a return on investment or interest payment in this or any other EPA charge is unknown to BC Hydro. Under the CFT bidders were entitled to bid an escalator amount on certain charges described in the EPA, but none relate specifically to the payments made to BC Hydro under the VIGP Transfer Agreement. Since BC Hydro is unaware of how the DPPLP has specifically treated these items, BC Hydro is unable to compare their carrying costs to those that BC Hydro would incur if the \$50 million was held on BC Hydro's own books.**

**1.15.18(ii)**

**Please see response to Gold River IR 1.5.18(i).**

**1.15.18(iii)**

**Please see response to Gold River IR 1.5.18(i).**

**1.15.18(iv)**

**Please see response to Gold River IR 1.5.18(i).**

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**1.5.18(v)**

**Please see response to Gold River IR 1.5.18(i).**

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**5.0 Reference: None**

1.5.19 With regard to the 70 million dollar write down identified by BC Hydro

- i) Please describe all items that are included in the announced 70 million dollar write down
- ii) Were all of these costs approved in advance by the BCUC?
- iii) Please detail the long range rate impact of this write down?

**RESPONSE:**

**This Information Request is out of scope.**

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**5.0 Reference: None**

1.5.20 With regard to socio economic costs associated with the CFT

- i) Have socio economic costs/benefits been factored into the decision on the CFT?
- ii) If yes, where are they evaluated and if not, why weren't they?

**RESPONSE:**

**1.5.20(i)**

**No.**

**1.5.20(ii)**

**Please see BC Hydro's response to Gold River IR 1.5.20(i). The purpose of the CFT was to provide a cost-effective solution to Vancouver Island's capacity problem.**

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**5.0 Reference: None**

1.5.21 There was an extensive report conducted by Mark Jaccard on the topic of on island generation.

- i) Please detail why the Multiple account analysis not used in the CFT?
- ii) Duke point has been termed as the most cost effect option, when considering the Jaccard report it is clear that it is not. How can BCH arrive at such a different decision?

**RESPONSE:**

**BC Hydro designed the CFT based on the Commission's recommendations. Please also see the response to Gold River IR 1.5.20(ii).**

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**5.0 Reference: None**

1.5.22 How are GHG cost calculated under the CFT?

**RESPONSE:**

**Please refer to BC Hydro's response to GSXCCC IR 1.23.2.**

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**5.0 Reference: None**

1.5.23 How are GHG costs factored into CFT?

**RESPONSE:**

**Please refer to BC Hydro's response to GSXCCC IR 1.23.2.**

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**5.0 Reference: None**

1.5.24 Please detail what these GHG costs are expected to be in each year of the 25 year contract?

**RESPONSE:**

**Please refer to BC Hydro's response to GSXCCC IR 1.23.2.**

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**5.0 Reference: None**

1.5.25 Please detail the potential impact of the Kyoto Accord and provide an estimate of costs?

**RESPONSE:**

**There will be no cost impact on BC Hydro's ratepayers arising from the CFT, since the Seller bears the financial costs of future GHG regulation. Please see the response to GSXCCC IR 1.23.2.**

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**5.0 Reference: None**

1.5.26 Were all of these costs factored into the CFT evaluation process?

**RESPONSE:**

**Please refer to BC Hydro's responses to GSXCCC IRs 1.23.1 and 1.23.2.**

**5.0 Reference: None**

1.5.27 At the CFT announcement, BC Hydro stated that when gas prices get too high they will not run the DPPLP project.

- i) At what gas price will the plant be turned off?
- ii) How many hours per year is VIGP forecast to operate?
- iii) If the plant is turned off when prices get too high, how will the demand be served and how is that possibility factored into the cost analysis? (penalties do not help to assess the cost effectiveness of a decision, they only serve as a possible recourse.)
- iv) If the demand can be served by other means, what is the need for the plant?

**RESPONSE:**

**1.5.27(i)**

**The Duke Point Plant will be dispatched on when it is needed to meet the capacity needs of Vancouver Island. Dispatch will also occur when the generator variable running costs are less than the BC Hydro opportunity cost of electricity.**

**1.5.27(ii)**

**The Duke Point plant is forecast to operate on-average 75-90% of all hours over the forecast period.**

**1.5.27(iii)**

**The first priority of the Duke Point plant will be to meet capacity needs on Vancouver Island. During periods in which the plant is needed to meet Vancouver Island capacity requirements, it will be dispatched on by BC Hydro.**

**1.5.27(iv)**

**Additional on-Island capacity is required to meet Vancouver Island load requirements. The Call for Tenders was a process established and run to determine the most cost-effective way of meeting this requirement. The Duke Point project was the winning bidder in this process.**

**5.0 Reference: None**

1.5.28 With regard to First Nations Benefits:

- i) Please provide details of the First Nations benefits agreement for the DPPLP project
- ii) Who will bear these costs?
- iii) Were these costs factored into the CFT?

**RESPONSE:**

**1.5.28(i)**

**The Benefits Agreement has been filed with the Commission in confidence.**

**1.5.28(ii)**

**DPPLP, upon the closing of the VIGP Transfer Agreement, will bear the cost associated with the Benefits Agreement.**

**1.5.28(iii)**

**BC Hydro does not know how DPPLP factored these costs into its tender.**

**5.0 Reference: None**

1.5.29 With regard to costs associated with an Environmental Assessment:

- i) Why was Duke Point exempted from an EA?
- ii) What are the real costs of exempting Duke Point from EA?
- iii) What are the real economic costs of exceeding emissions set for SE2?

**RESPONSE:**

- i.) **Please see BC Hydro's response to Hill IR 1.1.1. The Duke Point Power Project (DPPP) is not exempted from an Environmental Assessment (EA). An EA associated with VIGP is one of the development assets previously developed by the Vancouver Island Energy Corporation (VIEC). These development assets will be transferred to the DPPP proponents upon the closing of the VIGP Transfer Agreement.**
- ii.) **Some of the costs incurred by BC Hydro to secure project permits (\$4.7 million) are attributed to the EA. Please see BC Hydro's response to BCUC IR 1.16.1.**
- iii.) **In its VIGP decision, the Commission established that only the financial liability of future regulation of GHG emissions be considered as part of the CFT design. As noted in BC Hydro's response to Gold River IR 1.5.25, there will be no cost impact on BC Hydro's ratepayers arising from the CFT, since the Seller bears the financial cost of future GHG regulation. BC Hydro understands overall emissions from the Duke Point Power Project will be less than that estimated from the proposed SE2.**

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**5.0 Reference: None**

1.5.30 With regard to any regulatory risk relating to BC- Washington State memorandum on Air Quality:

- i) Please describe British Columbia's obligations under the memorandum signed by Premier Harcourt and Governor Gardner on Air Quality?
- ii) Has the EPA been formally informed of these proceedings?
- iii) Has the Washington State Department of Ecology been formally informed of these proceedings?

**RESPONSE:**

**This Information Request is out of scope.**

**5.0 Reference: None**

1.5.31 With regard to the cost of the CFT:

- i) Please detail all costs of operating the CFT.
- ii) How does this compare to the \$8 million dollars announced at the VIGP hearings in 2003?
- iii) Please provide 3 examples of similar size RFP held by regulated utilities in the past 18 months with costs attached.

**RESPONSE:**

1.5.31(i) Please detail all costs of operating the CFT.

**The CFT budget plan was \$4 million broken down as follows:**

Independent Reviewer	\$1,000,000
External Resources / External Experts	700,000
Bid Documents and Contracts	600,000
Communication and Information	400,000
Modelling and Evaluation	1,000,000
VIGP Due Diligence	300,000

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**1.5.31(ii)** How does this compare to the \$8 million dollars announced at the VIGP hearings in 2003?

**The \$8 million figure cited at the VIGP hearing was a preliminary estimate. Costs were subsequently determined to be in the range of \$4 million.**

**1.5.31 (iii)** Please provide 3 examples of similar size RFP held by regulated utilities in the past 18 months with costs attached.

**The CFT was designed to award contracts for 150 to 300 MW of Dependable Capacity (and associated energy) located on Vancouver Island.**

**The following RFPs of similar size but different products were issued in the past 18 months:**

- 1. Portland General Electric Co. - RFP for Power Supply Resources issued June 18, 2003 for 400 MW of Capacity and 600 MWh of Energy.**
- 2. Puget Sound Energy Inc. - RFP for from All Generation Sources issued February 3, 2004 - for energy and capacity totalling 355 aMW.**
- 3. Pacific Gas & Electric Company - Renewable Portfolio Standard Solicitation Protocol issued July, 15, 2004 - for 711 GWh per year or 81 MW at a capacity factor at 100% for a combination of products, intermittent energy deliveries, Base load, peaking, and dispatchable but all from renewable resources.**
- 4. Ontario Ministry of Energy RFP for 300 MW of Renewable Energy Supply - (although not a utility the Ontario Energy Board will approve acquisitions).**
- 5. Hydro Quebec - 600 MW – base load at 80-90% delivery performance factor and 200 MW of hourly dispatch load product.**

**BC Hydro conducted an industry standard review this past year that included some of the above-cited RFPs and was unable to obtain the associated implementation costs for these calls.**

**5.0 Reference: None**

1.5.32 With regard to change of Law Clauses (I am not a lawyer and don't understand but have been asked by a constituent to ask this)

- i) Please explain the rationale for CFT clause relating to change of law?
- ii) How does that compare to industry standard EPA's?
- iii) How does this compare to Edison institute EPA's?
- iv) Was the EPA offered under the CFT process significantly unique from the norm?
- v) Was it significantly different from other EPA's that Hydro or Powerex has entered into?

**RESPONSE:**

- (i) **Under the EPA, the Seller is excused from performance if it is unable to perform due to force majeure, which is defined as an event or circumstance not within the reasonable control of the party, and may include acts or omissions of governmental authorities. BC Hydro considered carefully bidder comments regarding the absence of relief in the EPA for the Seller in respect of additional costs that may be incurred by it due to changes in law. BC Hydro also considered carefully the treatment of this issue in a range of other power purchase agreements and concluded that, while treatment differed considerably, the approach taken in the EPA was not exceptional, particularly in mature political and commercial jurisdictions. All businesses are subject to a risk of changes in law, but are not necessarily entitled under their long-term contracts to shift that risk to customers, but must manage the risk themselves.**
- (ii) **As indicated in (i) above, BC Hydro found a range of treatments of the change of law issue in current contract forms, and did not find a uniform treatment among contracts surveyed.**

- (iii) The Edison Electric Institute Master Power Purchase & Sale Agreement (the EEI Agreement) is generally used in wholesale power marketing transactions, and not in respect of purchasing plant output, as is the case with the EPA. That said, the EEI Agreement does not, in either its base provisions or in the optional additional provisions available through EEI, contain a provision under which cost incurred by a seller due to a general change in law may be charged to the buyer.**
  
- (iv) As indicated in (i) and (ii) above, BC Hydro did not find a “norm” or uniform treatment of this issue in contracts surveyed.**
  
- (v) Some older BC Hydro EPA’s provided some flow through of certain costs incurred by sellers due to change of law. Some more recent BC Hydro EPA’s do not provide a flow through of costs, but do provide some relief against seller liability that would otherwise arise where the seller is affected by a change in law.**

**5.0 Reference: None**

1.5.33 In trying to understand the methodology of the analysis I would like some comparisons from active gas plants. So I am requesting some information about the performance of ICP.

- i) How much power was generated by ICP in each year since COD?
- ii) How does this performance compare to industry standard?
- iii) What is the NPV cost of power generated by ICP?
- iv) How does the tolling arrangement at ICP differ for that for Duke Point?
- v) How much gas price risk does BCH face from ICP?

**RESPONSE:**

**1.5.33(i)** How much power was generated by ICP in each year since COD?

**Under the EPA with Calpine Island Cogeneration Limited Partnership (CICLP), BC Hydro is obligated to treat such information as confidential. In an average maintenance year, BC Hydro assumes it will receive annual generation of approximately 1900 GWh.**

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**1.5.33(ii)** How does this performance compare to industry standard?

**Under the EPA, BC Hydro is obligated to treat information related to CICLP in connection with the EPA as confidential. CICLP has permitted BC Hydro to disclose that ICP's availability since start of commercial operation has been 85% on an annual basis. For a general performance overview of gas-fired technologies and other resource types, please see the response to BCUC 1.44.2.**

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**1.5.33(iii)** What is the NPV cost of power generated by ICP?

**Under the EPA, BC Hydro is obligated to treat such information as confidential.**

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**1.5.33(iv)** How does the tolling arrangement at ICP differ for that for Duke Point?

**Under the EPA, BC Hydro is obligated to treat such information as confidential.**

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**1.5.33(v)** How much gas price risk does BCH face from ICP?

**BC Hydro purchases about 15 million GJ of gas for ICP on an annual basis. Every \$1/GJ (CAD) increase in the gas price translates into \$15 million in increased costs.**