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October 10, 2019

E-FILED

British Columbia Utilities Commission
Sixth Floor – 900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

**British Columbia Hydro and Power Authority (BC Hydro)
Filing with the British Columbia Utilities Commission (BCUC) of
Electricity Purchase Agreement Renewals for Sechelt Creek Hydro, Brown Lake Hydro and
Walden North Hydro
Project No. 1598969**

On behalf of BC Hydro, we enclose BC Hydro's reply argument for the above-referenced proceeding.

Yours very truly,

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Encl.

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BRITISH COLUMBIA UTILITIES COMMISSION

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
ELECTRICITY PURCHASE AGREEMENT RENEWALS FOR
SECHELT CREEK HYDRO, BROWN LAKE HYDRO AND
WALDEN NORTH HYDRO
BCUC PROJECT NO. 1598969**

**British Columbia Hydro and Power Authority
Reply Argument**

October 10, 2019

A. Introduction

1. The following two interveners actively participated in the British Columbia Utilities Commission (**BCUC**) proceeding to consider the renewals of the Sechelt Creek, Brown Lake, and Walden North Electricity Purchase Agreements, referred to individually as the “**Sechelt Creek EPA**”, the “**Brown Lake EPA**”, and the “**Walden North EPA**” and collectively as the “**EPA Renewals**”:

- BC Old Age Pensioners’ Organization *et al* (**BCOAPO**), and
- Commercial Energy Consumers Association of British Columbia (**CEC**).

2. BCOAPO supports the BCUC accepting the EPA Renewals pursuant to section 71 of the *Utilities Commission Act (UCA)* as in the public interest:

- “BCOAPO takes the position that cost-effectiveness should be balanced with other energy objectives, and an appropriate weight should be given to the other vital benefits, particularly those related to First Nations and local communities.

Based on this evaluation and these considerations, in BCOAPO’s view the three renewed EPAs are in the public interest and as such, barring the discovery of any information that might materially affect how that balance might be struck through BC Hydro’s submissions in its Reply, BCOAPO supports the Utility’s Application.”¹

3. The CEC acknowledges certain benefits of each EPA Renewal:

- CEC submits the Sechelt Creek EPA is marginally cost effective under certain assumptions and that the beneficial impact of the project on the salmon run is important;²

¹ BCOAPO Final Argument, pages 20-21.

² CEC Final Argument, paras 137-140.

- CEC submits the Brown Lake EPA offers one of the more cost effective resources and could be potentially approved;³ and
 - CEC submits the Walden North EPA is the most cost-effective of the EPA Renewals, has additional environmental and technical benefits to BC Hydro, and could be reasonably approved.⁴
4. However, CEC is concerned about approval at this time largely because the CEC sees an uncertain future. Therefore, the CEC’s overarching recommendation is that “the Commission find that in general the Independent Power Producer (“**IPP**”) renewals are not in the public interest at this time because they are being established for an extended period (forty years) and are based on evidence that has the potential to change significantly in the near term.”⁵
 5. Neither the CEC Final Argument nor the BCOAPO Final Argument⁶ identifies any material concerns with the evidence BC Hydro submitted and updated in this proceeding. Looking at the same evidence as BC Hydro and BCOAPO, CEC reached its differing recommendation by taking a “very conservative approach”⁷ to the risks associated with these EPA Renewals and by discounting certain benefits associated with the agreements.
 6. BC Hydro has been forthcoming that the levelized price of the energy BC Hydro and its ratepayers will receive under each of the EPA Renewals will be lower than BC Hydro’s opportunity cost under certain sets of assumptions and will be higher than BC Hydro’s opportunity cost under other sets of assumptions. In this proceeding, BC Hydro has

³ CEC Final Argument, paras 178-180.

⁴ CEC Final Argument, paras 232-234.

⁵ CEC Final Argument, paragraph 1.

⁶ Noting that at page 11 of BCOAPO’s Final Argument, BCOAPO suggests that there is an inconsistency in results reported for the Walden North EPA. There is no inconsistency. BC Hydro’s Final Argument does not say that the Walden North EPA is cost-effective across the full range of cost estimates, rather it states “the levelized price of the Walden North EPA is lower than BC Hydro’s opportunity cost in almost all scenarios” (page 22, emphasis added). There are a few exceptions as noted by the BCOAPO.

⁷ CEC Final Argument, para 31.

provided analyses of 165 distinct sets of assumptions about future loads, future market prices, future costs of alternative clean energy resources in B.C., and future capacity credit values.⁸ The CEC's submissions are focused on the least favourable sets of assumptions, rather than the evidence as a whole. Further, CEC seems to suggest that there are potential changes in future conditions that are not encompassed within the 165 distinct sets of assumptions analysed.

7. Contrary to CEC's approach, BC Hydro reiterates that the BCUC should not rely on any one distinct set of assumptions to make its public interest determinations on the EPA Renewals. Rather, the BCUC should consider the entirety of the evidence and the criteria set forth in section 71(2.21) of the *UCA*.⁹
8. Further elaboration of the reply to CEC's Final Argument is provided below.

B. Reply to CEC's Arguments

CEC focuses on the least favourable of the 165 sets of assumptions analysed

9. At paragraph 25 of the CEC Final Argument, the CEC provides the ranges of updated BC Hydro opportunity costs in respect of each EPA Renewal. At their paragraph 27, the CEC focuses on the low end of the ranges, observing that the low end of the ranges of BC Hydro's opportunity costs "drops lower than the EPA renewal price for both Sechelt Creek Hydro and Brown Lake."
10. At paragraph 34 of the CEC Final Argument, the CEC provides the ranges of rate impacts of each of the EPA Renewals as provided by BC Hydro in the proceeding. At their paragraph 35, the CEC focuses on the high end of the ranges of rate impacts, observing that at the high end of the ranges "all the projects have the potential to cause a rate increase under the Interim Market Approach".

⁸ For example, see BC Hydro Final Argument, para 6.

⁹ BC Hydro Final Argument, para 66.

11. The CEC's focus on the lowest values of BC Hydro's opportunity costs and the highest values of rate impacts might be based on a false assumption that the assumed conditions underlying these specific values are equally or perhaps more probable to occur than the conditions assumed in the many other scenarios considered.
12. BC Hydro's Final Argument (at paragraphs 25, 35 and 53) described the nature of the scenarios where the levelized price of each of the EPA Renewals is lower than, about equal to, or higher than the BC Hydro opportunity cost, and also explains (at paragraphs 26, 36, 53 and 65) how the levelized price of each EPA Renewal compares to BC Hydro's opportunity cost in the majority of the model run scenarios BC Hydro analysed in this proceeding. All of the details of the assumptions and calculations for each of the 165 model runs are available to the BCUC in confidentially filed spreadsheets.¹⁰ BC Hydro reiterates that the BCUC should consider the entirety of the evidence, and not rely on any one distinct set of assumed future conditions.

CEC argues that the EPA Renewals are premature

13. At paragraphs 7 and 36-53 of the CEC Final Argument, the CEC submits that the EPA Renewals are premature because BC Hydro's Integrated Resource Plan ("IRP") will be updated soon, there might be new energy policy guidance from Government, and alternative less expensive energy resources may become available in the future.
14. With respect to the IRP, at paragraph 42 of the CEC Final Argument the CEC submits that the BC Hydro's 2013 IRP is outdated at this time and relies upon information that is not necessarily still appropriate to form the basis for future spending.
15. BC Hydro replies that the negotiations for the Walden North EPA began some 3 years ago. The negotiations for the Sechelt Creek EPA and the Brown Lake EPA began about 2 years ago when BC Hydro provided notice to the owners of these IPP facilities that BC Hydro intended to terminate the original EPAs which were at the end of their initial 20 year

¹⁰ Ex. B-13, BC Hydro's response to BCUC CONF IR 2.9.1. Also refer to Ex. B-14, BC Hydro's response to BCOAPO IR 2.6.2.

terms. The decisions BC Hydro made then to negotiate EPA Renewals relied on the guidance of the 2013 IRP and also on updated load resource balance forecasts (LRBs)¹¹ and sought to reach agreement with the IPPs on new EPAs with more robust terms and conditions, and lower prices. The renewal negotiations took place mainly in 2017 and early 2018.

16. At paragraphs 36 to 38 of the CEC Final Argument, CEC also submits that the EPA Renewals are premature because less expensive alternative energy resources may be available in the future as a result of potential new government policy or otherwise, and that such changes could seriously affect the need and/or appropriate price to be paid for IPP energy.
17. BC Hydro replies that the very broad range of 165 scenarios considered in this proceeding include alternatives that assume future conditions will have: (i) higher or lower loads than the updated mid-level forecast, (ii) higher or lower costs of alternative sources of energy, including higher and lower market prices and costs for new wind energy resources in B.C., and (iii) a multitude of combinations thereof.¹²
18. That the 2013 IRP is now outdated and a new IRP will be completed in approximately two years time does not mean that the EPA Renewals are not in the public interest.

C. Conclusions

19. The future is always to some extent uncertain. In this proceeding, a very broad range of assumptions about future conditions has been analysed. The levelized price of each of the EPA Renewals is lower than or generally similar to BC Hydro's opportunity cost in the majority of these 165 model run scenarios.¹³
20. Moreover, as summarised in BC Hydro's Final Argument and in the BCOAPO's Final Argument, the EPA Renewals provide significant benefits to BC Hydro and its current and

¹¹ Ex. B-12, BC Hydro's response to BCUC IR 2.18.1.

¹² See spreadsheet in BCUC CONF IR 2.9.1.

future ratepayers, as well as important broader public interest benefits to First Nations, local communities and the environment (e.g., salmon migration and spawning).

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 10TH DAY OF OCTOBER 2019.

Counsel for British Columbia Hydro and Power Authority



Ian D. Webb

¹³ BC Hydro Final Argument, paragraph 65.