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August 11, 2020

Ms. Marija Tresoglavic
Acting Commission Secretary and Manager
Regulatory Support
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Tresoglavic:

**RE: British Columbia Utilities Commission (BCUC or Commission)
Catalyst Paper Corporation Request to Reduce Rate Schedule 1893
Baselines
British Columbia Hydro and Power Authority (BC Hydro)
BC Hydro Intervener Evidence**

BC Hydro writes in response to BCUC's Order No. G-207-20 dated July 31, 2020 to provide its comments in respect of the request by Catalyst Paper Corporation (**Catalyst**) to Reduce Rate Schedule (**RS**) 1893 Baselines (the **Application**).

The purpose of BC Hydro's submission is to provide additional background and context to broaden the evidentiary record and to help inform the BCUC's review. RS 1893 baseline determination and adjustment is complex. We hope this information will be helpful to provide the BCUC, Catalyst and interested parties with a more comprehensive understanding of the unique considerations related to this customer request.

BC Hydro's Summary Comments

BC Hydro's overarching comments are summarized below:

1. The design intent of RS 1893 is to encourage incremental electricity use above normal historical levels. The purpose of RS 1893 baselines is to separate normal levels of RS 1823 electricity purchases from incremental levels of RS 1893 electricity purchases;
2. Consistent with the design intent of RS 1893, BC Hydro considers that baseline adjustments which enable the customer to purchase energy under RS 1893 that it would not have otherwise consumed under RS 1823 should be admissible;
3. Specific to the Catalyst circumstance, BC Hydro notes that the RS 1893 Pilot was designed to help customers consume more electricity. The rate was not expressly designed to enable economic restart for facilities with operations that have been

temporarily shutdown (whether due to a pandemic or other factors) and that seek to return to 'normal' levels of operation on a short-term or ad-hoc basis;

4. For the Catalyst Crofton facility, if RS 1893 baselines are set to reflect shutdown operations, the magnitude of a mill restart in any month is such that Special Condition 11 of RS 1893 will be automatically triggered. This will have the effect of automatically pricing 50 per cent of total electricity use under RS 1893 and 50 per cent of total electricity use under RS 1823 and will make the adjusted RS 1893 baselines obsolete;
5. To address baseline harmonization challenges that arise between RS 1823 and RS 1893 when the principles and criteria of TS 74 are applied to a shutdown plant seeking an opportunity for economic re-start, BC Hydro considers that transfer of the customer site to RS 1823A would be a fair and pragmatic solution;
6. BC Hydro considers the Catalyst proposal to use the RS 1828 Transmission Service - Biomass Energy Program design and criteria to encourage incremental use from shutdown plant to be out of scope for the current proceeding. This rate schedule was approved by the BCUC pursuant to government direction; and
7. BC Hydro is supportive of outcomes that encourage incremental use of electricity by Catalyst and that can be applied fairly and equally to all eligible transmission service customers in similar circumstances.

BC Hydro's specific comments are provided below and correspond to Catalyst's responses to each BCUC Information Request.

BC Hydro Comments Related to BCUC Information Requests

Catalyst response to BCUC IR 1.1

8. BC Hydro considers the approach by Catalyst to use 12 months of pre-COVID electricity consumption to be reasonable. BC Hydro also considers it reasonable that Catalyst would propose adjustments to its electricity consumption history so that it reflects normal pre-COVID operations. However, BC Hydro does not have sufficient information regarding the specific pre-COVID adjustment events claimed by Catalyst to verify their energy consumption impacts and to confirm that the adjustments are appropriate. For example, BC Hydro notes that the February 2020 period includes a period of shutdown due to a malware attack;
9. Catalyst has proposed using April 2020 electricity consumption to represent 'normal operations' post-COVID such that its adjusted RS 1893 baselines reflect '*... the change in load in April 2020 relative to the adjusted load for the 12 months ending February 2020*'. However, this represents a forward looking approach using only a single month of data (April 2020) which may or may not be representative of operations in future months; and

10. BC Hydro notes that baseline adjustments made under RS 1893 are typically determined on a retrospective basis using historical data and pursuant to a BC Hydro engineering review of adjustment events that have been defined and submitted to BC Hydro for review and verification. Neither RS 1893 nor Electric Tariff Supplement No. 74 (**TS 74**) contemplate making baseline adjustments on a prospective basis using a single month of electricity consumption data. Accordingly, BC Hydro is unable to confirm that the requested RS 1893 baselines adjustments are reasonable.

Catalyst response to BCUC IR 1.2

11. BC Hydro has no comment on this response.

Catalyst response to BCUC IR 2.1

12. Given the size of Catalyst's self-generation facilities, the interaction of self-generation on purchased electricity at both sites is important to understand.

Catalyst response to BCUC IR 3.1

13. BC Hydro notes that Catalyst applied to BC Hydro for annual (F2021) adjustment to each of its 12 monthly RS 1893 baselines for its Crofton and Port Alberni mills on May 7, 2020 (i.e., prior to Catalyst making its request on May 21, 2020 to the BCUC for the three months of July - August only). At that time, BC Hydro advised Catalyst that its initial request was complex and that tariff and engineering review would likely take a significant amount of time to complete. BC Hydro was unable to provide Catalyst with certainty as to the timing or probable outcome of that review to enable Catalyst to make plans for short-term mill restart. This is consistent with Catalyst's response that:

'The request to the BCUC was limited to 3-months based on the urgency to resolve the issue and an expectation that it would be resolved within a few weeks and therefore it did not seem appropriate at that time to request a decision for a longer timeframe.'

Catalyst response to BCUC IR 3.2

14. The thrust of Catalyst's RS 1893 baseline adjustment request is neatly captured by the following statement:
- 'A reduction in our RS 1893 baselines effectively splits our 'normal historic annual consumption' pre-COVID into blocks of RS 1823 and potential RS 1893 energy post-COVID. The goal would be to use the incremental rate to restart shutdown operations as market conditions allow, with an eventual return to our normal historic consumption.';

15. BC Hydro considers that it is extremely challenging to make a determination of 'normal' pre- and post-COVID operations given the unprecedented nature of the COVID pandemic and the influence of other factors unrelated to COVID that have impacted mill load - such as fibre shortages, a malware attack and other plant/equipment shutdowns;
16. Catalyst has referenced section 4.1.5 of TS 74 (for Equipment Shutdown) as an example of its considerations related to baseline reconciliation between RS 1823 and RS 1893. However, as noted above, Catalyst has not identified the specific adjustment events and the specific sections under TS 74 for which RS 1893 baseline adjustment treatment is requested;
17. As required by Special Condition 8 of RS 1893, baseline adjustments requested by the customer will be reviewed consistent with the principles and criteria set out in TS 74. In practice, BC Hydro uses this provision to harmonize baseline adjustments as between RS 1823 and RS 1893. In general, the changes made to one baseline will have a flow-through change to the other;
18. In the Catalyst circumstance, using the Equipment Shutdown provision of TS 74 as an example, the fundamental issue is that the equipment needs to remain shutdown in order for the energy consumption impact of the shutdown to be verified and incorporated into the RS 1823 Energy CBL. However, if the equipment is re-started under RS 1893, then the CBL adjustment is no longer applicable because the equipment is no longer shutdown;
19. Catalyst identified transfer to RS 1823A as a prospective solution to this baseline harmonization dilemma because 'A prospective transition to RS 1823A, the blended energy rate, would eliminate the need to reconcile baselines since no baselines are required with RS 1823A.';
20. In general, BC Hydro agrees that transfer to RS 1823A would resolve the baseline harmonization issue. However, transfer to RS 1823A is only a partial solution insofar as it will address RS 1823 pricing risk (for BC Hydro, but not necessarily the customer), but will not address RS 1823 energy volume risk including load shifting. In addition, a transfer to RS 1823A would require the customer to remain under this rate until at least 12 Billing Periods of normal operations have been achieved for a CBL to be re-determined;
21. As Catalyst has correctly identified, the application of Special Condition 11 of RS 1893 will impact the customer's restart decision:

'... any restart of the Crofton TMP paper operations will trigger Special Condition 11. For each Billing Period, this will have the effect of pricing 50% of total electricity use under RS 1893 and 50% of total electricity use under RS 1823. Therefore, any attempt to restart TMP paper operations will have to be weighed against the liability of higher RS 1823 costs in the current Billing Period and higher baselines in future years...';
22. In practical terms, the application of Special Condition 11 will cap the volume of RS 1893 electricity at 50 per cent of total usage. This effectively removes the

requirement for a monthly electricity baseline at the Crofton mill because the equipment to be re-started is so large (e.g., 100 MW), relative to the shutdown baseline requested (e.g., 10 MW), that turning it on for even one hour will trigger Special Condition 11. Since the allocation of total electricity consumption is pre-determined on a 50/50 basis, there is little value in conducting a detailed baseline adjustment assessment, including engineering review; and

23. To avoid the application of Special Condition 11, Catalyst has proposed a treatment equivalent to it being served under Rate Schedule 1828 (Transmission Service - Biomass Energy Program). Catalyst opines that this rate design may ‘... *provide a framework for encouraging incremental load during these uncertain times while adhering to the intent of TS 74 to not discourage economic growth.*’ It would also have the result of fixing the price of Catalyst’s baseline energy purchases at the RS 1823 Tier 1 energy rate. BC Hydro considers this submission to be out of scope for the current proceeding.

Catalyst response to BCUC IR 3.3

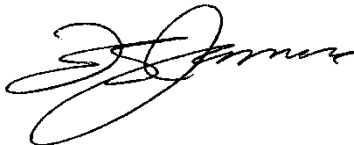
24. Please refer to BC Hydro’s response to BCUC Panel IR 1.1.2 in the Market Reference-priced Rate Application proceeding, attached as Appendix 1.

Catalyst response to BCUC IR 3.4

25. BC Hydro considers that it may be helpful to assess how Catalyst actually operated its Crofton and Port Alberni sites for the June, July and August Billing Periods once these periods are complete and interim RS 1893 energy purchases have been determined.

For further information, please contact Anthea Jubb at 604-623-3545 or by email at bchydroregulatorygroup@bchydro.com.

Yours sincerely,



Fred James
Chief Regulatory Officer

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Catalyst Paper Corporation Request to Reduce Rate Schedule 1893 Baselines

Appendix 1

BC Hydro's Response to BCUC Panel IR 1.1.2 Market Reference-Priced Rate Application Proceeding

PUBLIC

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1.0 Reference: INCREMENTAL ENERGY RATE PROPOSAL
Exhibit B-1, Application, Section 5.5, pp. 72–80,
Exhibit B-11, IR Series 3.0; Catalyst Paper Request to Reduce
RS 1893 Baselines, Exhibit B-1
Economic Justification and Ratepayer Impacts

In response to British Columbia Utilities Commission (BCUC) information request (IR) 3.3.3, British Columbia Hydro and Power Authority (BC Hydro) stated:

BC Hydro is unable to update expected RS 1893 energy sales and expected net revenue for each energy charge adder as provided in Table 13 on page 79 of the Application based on the challenges highlighted in the Demand Dilemma Report.

The COVID-19 pandemic is new to us, and there is insufficient data to analyze how the challenges highlighted in the Demand Dilemma Report may impact ratepayer economics of RS 1893.

Further in response to BCUC IR 3.3.3.1, BC Hydro stated:

The information provided in Table 13 on page 79 of the Application remains BC Hydro's most current estimate of expected net revenue each year under RS 1893, based on the original assumptions provided. The information is still valid as we haven't updated the model and the load estimates are still reasonable.

BC Hydro has not updated forward-looking data inputs in the model for the Pilot based on the load and operational challenges resulting from COVID-19 as highlighted in the Demand Dilemma Report.

Although BC Hydro has seen a short-term decline in industrial demand due to the COVID-19 pandemic, BC Hydro still considers that certain industrial customers may remain able to increase load under RS 1893 over the pilot period. Additionally, because we are still in the midst of the pandemic and the resulting consequences, any attempt to forecast the impacts on BC Hydro's operations will be an uncertain exercise and will not add value at this time. As such, BC Hydro considers that the original assumptions regarding incremental customer load remain reasonable.

On May 21, 2020, Catalyst Paper Corporation (Catalyst), filed an application with the BCUC to request significant reduction to the Rate Schedule (RS) 1893 baselines¹. In its application Catalyst states:

¹

https://www.bcuc.com/Documents/Proceedings/2020/DOC_58203_B-1-Catalyst-RS1893-BaselineAdjustmentRequest.pdf

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COVID-19 has had a dramatic impact on the global demand for the paper grades Catalyst Paper produces at its sites at Crofton, Port Alberni and Powell River. This has resulted in extensive production curtailments at these sites and an accompanying reduction in load as evidenced by the reduced purchases from BC Hydro in the April 2020 period.....

.....We believe that an interim request will provide enough time to realize market opportunities and limit any *potential* negative impact to other rate payers while we collect data to evaluate the net impact of the reduced baselines to inform any longer-term changes.

- 1.1.2 Please elaborate and explain what the potential positive (favourable) or negative (unfavorable) impacts on other BC Hydro ratepayers could be due to the change in RS 1893 baselines requested by Catalyst. To the extent possible, please quantify.

RESPONSE:

This response contains commercially sensitive information that is specific to Catalyst and has thus been redacted. The redacted information is being provided to the BCUC only.

By Order G-129-20A dated June 10, 2020, the BCUC approved Catalyst's requested RS 1893 baselines for its Crofton and Port Alberni sites for the three Billing Periods of June, July and August 2020 on an interim and refundable basis.

The mere adjustment of the RS 1893 baselines for those two sites, by itself, is not sufficient to make a determination of positive or negative ratepayer impacts. Rather, such a determination requires consideration of a number of complex and dynamic factors, such as:

- (i) Whether Catalyst purchases any RS 1893 energy relative to the adjusted baselines that have interim approval;
- (ii) Whether the BCUC approves the interim baselines on a final and permanent basis without any changes;
- (iii) Whether the volume of RS 1893 energy purchased would be incremental relative to what Catalyst would have otherwise purchased from BC Hydro absent the requested RS 1893 baseline adjustments;
- (iv) The HLH and/or LLH price of RS 1893 energy on any day where HLH and/or LLH Net Incremental Energy was purchased;

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- (v) The daily system condition deemed to apply to any day where HLH and/or LLH Net Incremental Energy was purchased;
- (vi) The difference in energy pricing between RS 1823 and RS 1893 for any volume of RS 1893 energy deemed to be not incremental; and
- (vii) The prospective impact on Catalyst's F2021 annual RS 1823 energy purchases relative to its annual Energy CBL for the purposes of the annual Energy CBL reset determination under Tariff Supplement 74.

Notwithstanding these complexities, BC Hydro offers the following assessment in an effort to frame the prospective ratepayer impact if the BCUC were to approve Catalyst's requested baselines on a permanent basis:

The ratepayer impact would be positive where:

- Catalyst has any RS 1893 energy purchase in a Billing Period;
- The RS 1893 energy is considered to be truly incremental (i.e., would not otherwise have occurred in the absence of the baseline adjustment and the adjusted baseline is verified to be appropriate); and
- BC Hydro recovers its marginal cost of serving the RS 1893 energy based on the daily system condition deemed to apply to any day where HLH and/or LLH Net Incremental Energy was purchased.

The ratepayer impact would be negative where:

- Catalyst has an RS 1893 energy purchase in a Billing Period, but BC Hydro does not recover its marginal cost of serving the RS 1893 energy based on the daily system condition deemed to apply to any day where HLH and/or LLH Net Incremental Energy was purchased; or
- The RS 1893 energy: (a) is not considered to be truly incremental (i.e., would have occurred anyway); and (b) the otherwise applicable RS 1823 energy price is higher than the RS 1893 energy price for the specified volume of energy that is deemed to not be incremental.

BC Hydro also notes the following complicating factors:


- The regulatory proceeding established by the BCUC to review Catalyst's application is ongoing and is unlikely to be concluded prior to the end of August 2020, which is the final month of the three month period to which the adjusted RS 1893 baselines would apply;
- Catalyst advised in its June 12, 2020 submission to the BCUC that the approval of adjusted RS 1893 baselines on an interim and refundable basis is

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unlikely to provide Catalyst with sufficient electricity pricing certainty to take orders and make production commitments that will enable the retention of staff and restart of load under RS 1893;

- Catalyst's adjusted baselines reflect "... *the change in load in April 2020 relative to the adjusted load for the 12 months ending February 1, 2020*" and imbed a number of adjustments that have not yet been identified by Catalyst or verified by BC Hydro;
- Catalyst's request for adjusted RS 1893 baselines is based on a forward looking approach which has not been tested. Baseline adjustments are typically determined on a retrospective basis using historical data and pursuant to a BC Hydro engineering review to verify the electricity consumption impact of a defined event(s). Tariff Supplement 74 does not contemplate making baseline adjustments on a prospective basis using forecast data.
- Special Condition 8 of RS 1893 provides a means to address a situation where the requested baselines may not accurately reflect the impacts of COVID-19 and may not represent Catalyst's normal expected RS 1823 electricity usage during each of the June - August Billing Periods;
- In accordance with Special Condition 9 of RS 1893, BC Hydro is not certain how adjustments to Catalyst's RS 1893 baselines that might be approved by the BCUC (such as for production curtailments) could be harmonized in a manner "... *consistent with the principles and criteria set out in BC Hydro's Tariff Supplement 74*" (such as if production is re-started);
- As at the date of this response, only the June 2020 Billing Period has been completed. For the June 2020 Billing Period, Catalyst purchased a total of [REDACTED] GWh of RS 1893 energy at Crofton and [REDACTED] RS 1893 energy at Port Alberni;
- BC Hydro is unable to speculate as to how Catalyst might choose to operate its Crofton and Port Alberni sites for the July and August Billing Periods and whether there will be any RS 1893 energy purchases in these months;
- Per Special Condition 3c(ii) of RS 1893, the customers' notice of intent to participate is required to include the operational and/ or production changes the customer plans to make to take advantage of the pilot. [REDACTED]

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- **Special Condition 11 of RS 1893 includes a 2.0x cap on the volume of any incremental take of electricity during a Billing Period under RS 1893. BC Hydro expects that Special Condition 11 would be triggered if Catalyst were to re-start shutdown operations at its Crofton mill.**

This would automatically trigger Special Condition 11 and result in 50 per cent of electricity consumption being billed under RS 1893 and 50 per cent being billed under RS 1823.
- **RS 1893 uses monthly settlement to determine the volume of HLH and LLH Net Incremental Energy over an entire Billing Period. Please refer to page 70 of the Application for a detailed summary of the monthly settlement process, which relies on hourly data. This may impact the determination of RS 1893 energy if Catalyst were to run its operations only sporadically during a Billing Period, such as during a single week, which could result in higher than hourly baselines in that week, but lower in other weeks.**