

**BC Hydro Response to Customer Comments Regarding
Proposed Conditional Firm Service Business Practices
March 8, 2011**

Introduction:

On November 21, 2008, BCTC submitted an application to the BCUC (**Application**) to amend its OATT to maintain consistency with the U.S. Federal Energy Regulatory Commission (**FERC**) *pro forma* tariff as revised by FERC's Order No. 890, Order Nos. 890-A and 890-B. The BCUC approved the proposed OATT amendments on September 10, 2009 through BCUC Order No. G-102-09. As reflected in Appendix C (**Implementation Schedule**) of the Application some of the amendments, including Conditional Firm Service (**CFS**), were to come into effect on or before March 31, 2011.

On January 21, 2011 BC Hydro posted draft business practices which provided options for the implementation of CFS. A workshop was held on February 4th to present the two implementation options and drafts of the CFS BPs. A number of minor revisions and clarification were made to the BPs and customers were given until February 23rd to submit their comments on the draft BPs.

BC Hydro received comments from the following parties; Capital Power Corporation, Cargill Power Markets LLC, Morgan Stanley Capital Group Inc., NaturEner Energy Canada Inc., Powerex Corporation, Rainbow Energy Marketing Corporation, and TransCanada Energy Ltd. The comments from customers followed a number of common themes. Therefore, BC Hydro has responded to these common themes rather than on a customer comment by comment basis. Although BC Hydro sought comments on customer's preference with regards to the two alternative business practices (Option 1 and Option 2) for CFS, BC Hydro received very few comments on the implementation options presented.

BC Hydro's responses below reflect its belief that CFS as proposed in both options is consistent with the service approved by the BCUC.

1. Degree of Conditionality

Comment: Numerous comments were received with respect to the degree of conditionality of CFS on the BC>AB path. Specifically, concerns were raised as to whether CFS should be offered on a path when there is no reasonable prospect of firm ATC becoming available for the path. (See comments of Cargill Power Markets, Capital Power, Rainbow Energy Marketing and Morgan Stanley Capital Group).

Response: BC Hydro's decision to offer CFS on a 100% conditional basis is reasonable and consistent with the FERC decisions and the approvals from the BCUC:

- (a) The BCUC approved the implementation of CFS on the BC>AB Path only with conditional periods: "The Commission Panel notes that Table 3-2 of the Application shows BCTC expecting no firm ATC to be available for Conditional Firm Service on the BC>AB Path (or for US>AB services). ...BCTC is therefore directed not to offer CFS on the BC>AB path unless it is offered in a conditional period where it would be curtailed prior to other firm services (conditional period-

conditional firm), without further Commission approval.”¹ Consistent with this, BCUC Order G-103-09 regarding the TransCanada Energy complaint indicated that contracts on the BC>AB Path could be converted to “a form of conditional period-conditional firm” service.

- (b) The statement in Order No. 890 that “we envision the conditional firm option as one in which firm service is available most of the period of a year”² must be considered in its full context. Immediately following this statement FERC rejected a commentator’s request to tailor CFS in circumstances of acute conditions, stating: “Because a conditional firm customer is obligated to pay the long-term firm point-to-point rate, we assume that few, if any, customers would accept the service in circumstances where the interruptions (or “conditions”) are so frequent or pervasive to make the service unattractive.”³ Thus, FERC appears to have relied on the pricing of CFS to regulate whether CFS would be sold with little or no firm service. Consistent with this conclusion, in Order No. 890 and following, FERC described the attributes of CFS and did not require a minimum amount of firm service.⁴

2. Queue Priority and CFS

Comment: Customers have stated that offering CFS to the customers in the existing queue for long-term firm service would be unfair. (See comments of Morgan Stanley and Capital Power) It has been suggested that as CFS is a new service, an open season or simultaneous submission window would be appropriate. Customers have also indicated that BC Hydro’s CFS product will decrease opportunities for non-affiliates of BC Hydro to flow on the BC>AB path.

Response: BC Hydro’s approach is consistent with FERC and BCUC decisions. Both BCTC’s 2008 OATT Application as approved by the BCUC and FERC Order No. 890 are clear that CFS is offered in response to a request for a long-term firm transmission service when there is insufficient firm ATC to grant the request. This attribute of CFS is clear from section 15.4(c) of the FERC *pro forma* OATT as well as the amendments to the OATT approved by BCUC Order No. G-102-09. Moreover, CFS was a new service in Order No. 890 and FERC did not order it to be offered by way of an open season or simultaneous submission window.

All customers, whether they are affiliates of BC Hydro or not, have an equal opportunity to submit a request for long term firm transmission service.

3. Biennial Reassessment

Comment: Several comments were submitted suggesting that there needs to be a unique mechanism developed for contracts on the BC>AB path to allow for customers to terminate CFS. (See comments of Cargill Power Markets, NaturEner and Morgan Stanley)

¹ BCUC Decision, Amendments to the Open Access Transmission Tariff, dated September 10, 2009, at page 12.

² Order No. 890, para. 1047.

³ Order No. 890, para. 1047.

⁴ We note that in *Pacificorp*, 129 FERC 61,200 (2009), FERC accepted for filing 12 CFS agreements, even though the CFS agreements were subject to a significant number of curtailable hours.

Response: The purpose of the termination provision in the biennial reassessment review is to give a customer the option to terminate the CFS contract if it becomes less attractive after reassessment. If the CFS contract gets no worse, then there is no reason why the customer should have a right to terminate, i.e. in Order No. 890 the customer has no general right to terminate a CFS contract because it decides that it no longer wants the service. However, BC Hydro is considering whether it is able to provide an option to customers to terminate a Service Agreement if future Forecasted Periods reflect all conditional service after the Initial Forecasted Period.

4. Pricing

Comment: A comment was received that it is unfair to charge the long-term firm price for a 100% conditional service. (See comments of Cargill Power Markets)

Response: The BCUC approved the pricing of BC Hydro's CFS, which is based on FERC Order No. 890. Specifically, per approved Rate Schedule 01, the monthly charge for CFS is the same for long-term firm point to point service (**PTP**), short-term firm PTP and short-term non-firm PTP. Under this rate schedule, BC Hydro provides discounts for short-term firm PTP and short-term non-firm PTP for particular service increments on certain posted paths to encourage utilization of the transmission system. There is no discount for long-term PTP. CFS is a form of long-term firm PTP service and is therefore charged at full price as per Rate Schedule 01.

5. Degradation of service to existing Long Term Firm Transmission Rights Holders

Comment: Customers have implied that there may be a negative impact from the implementation of CFS on firm transmission holders. (See comments of TransCanada Energy and NaturEner)

Response: As conditional levels of CFS service are curtailed prior to firm service, BC Hydro does not believe that there is any basis for such concerns.

6. Conditional Conditions

Comment: Customers suggested that the difference between BC Hydro's conditions for CFS and FERC's conditions were inappropriate. (See comments of Cargill Power Markets, Morgan Stanley and Capital Power Corporation)

Response: BC Hydro's form of CFS was included in the Application and approved by the BCUC through Order NO. G-102-09.

7. Release of unused CFS amounts

Comment: Morgan Stanley asked for clarification as to whether unused CFS transmission service will be released in Real-Time as non-firm transmission.

Response: CFS is a form of long-term firm PTP transmission service. Both the firm and conditional portions are treated as firm for the purpose of release of unused transmission service. Please see section 4.1 of the *Posting of Transmission Service Offerings* and section 6.0 of the *TTC/ATC Business Practices* for more detail with respect to the release of unused transmission service.

8. Redirects and CFS

Comment: Morgan Stanley asked for clarification as to how and when CFS TSRs can be redirected.

Response: We note that since there is no posting of short-term CFS ATC, redirect to CFS on a short-term basis is not possible. Please see Section 8.0(2) of the CFS Business Practice as well as Sections 2.0 and 3.0 of the *Redirect of a Transmission Reservation Business Practice* for additional details with respect to how and when redirects can be requested.

9. Curtailment Conditions

Comment: Morgan Stanley asked for clarification as to when and how CFS curtailments will be made.

Response:

If the Transmission Customer has configured their OASIS so that they are notified through the TSR when a curtailment of transmission occurs, they will be notified shortly after XX:40. If an energy curtailment is required, the customer will be notified through their eTag shortly after XX:40. Please refer to Sections 3.1 and 5.0 in the *Curtailment of Transmission and Energy Business Practice* for additional details with respect to how and when CFS curtailments will be made.

10. Administration of CFS

Comments: A number of questions were raised in regards to the administration of CFS including when CFS contracts would be tendered and how long customers will have to decide whether they wish to accept CFS.

Response: BC Hydro will tender CFS contracts to customers as soon as practicable after the effective date for service commencing on the following month in accordance with the *Processing of Long Term Firm Point-to-Point Transmission Requests Business Practice*. When tendered, the CFS contract will be for the lesser of the customer's requested amount as indicated in the long-term TSR and the available transmission capacity based on the long term TTC on the path. The customer must either accept or reject the service as offered.

11. Ancillary Services

Comment: Morgan Stanley asked for clarification as to how ancillary services will be applied to CFS.

Response: Ancillary services for CFS will be charged in the same manner as ancillary services for Long-Term firm Point-to-Point service as per Rate Schedules 03 to 09 inclusive.

12. TTC / ATC

Comment: Morgan Stanley asked for clarification as to the TTC amounts for the various system paths as well as the TTC used in Real-time.

Response: ATC calculations for a given time horizon are based on TTC for that time horizon. For example, hourly non-firm ATC calculations for the next hour are based on TTC determined for the next hour. Please see the *TTC / ATC Business Practice* for additional details.

13. Allocation of long-term firm capacity

Comment: Powerex asked for clarification as to how ATC that becomes available on a long-term basis will be allocated.

Response: If long-term firm ATC becomes available from constructing Network Upgrades in response to a Customer's long-term transmission service request and commitment, the ATC associated with those Network Upgrades will be awarded to that Customer first. Remaining ATC, if any, will be awarded to confirmed CFS reservations, other long-term reservations with conditions, and transmission service requests based on queue priority.

If long-term firm ATC becomes available from the existing system without Network Upgrades, this ATC will be awarded to confirmed CFS reservations, other long-term reservations with conditions, and service requests based on queue priority.