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January 8, 2004

**SENT VIA E-MAIL AND FAX**

British Columbia Utilities Commission  
Box 250  
600-900 Howe Street  
Vancouver, BC V6Z 2N3

Attention: Mr. Robert Pellatt

Dear Mr. Pellatt:

**Re: BC Hydro Call for Tenders for Capacity and Associated Energy on Vancouver Island ("CFT")**

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File: 061138.0002

We act on behalf of the Joint Industry Electricity Steering Committee (the "JIESC").

We write on behalf of the JIESC with respect to its concerns regarding the process implemented by BC Hydro to deal with capacity concerns on Vancouver Island. The JIESC has a number of concerns regarding the CFT process and BC Hydro's efforts to seek Commission approval of the CFT process and evaluation methodologies and underlying assumptions and philosophy. The JIESC is concerned that the CFT process and the evaluation criteria implemented by BC Hydro will not produce the least cost solution to resolve the problems on Vancouver Island.

Following the VIGP hearings, the JIESC had hoped that the CFT would reflect BC Hydro's commitment to consider multiple solutions to resolving capacity issues on Vancouver Island. In VIEC's Reply Argument, BC Hydro (VIEC) indicated that the CFT would accommodate a range of product options, including: dependable capacity and associated energy, dependable peaking capacity, and demand side management (load displacement, scheduling, and management).<sup>1</sup> As issued, the CFT is a call for new generation capacity only, and as such, does not fulfill BC Hydro's commitment to accommodate a range of product options. The JIESC is disappointed and concerned that the CFT does not seek or encourage a variety of options and alternatives to address the capacity shortfall issues on Vancouver Island.

On November 19, 2003, representatives of the JIESC met with BC Hydro to discuss the CFT and the JIESC's concerns. Those concerns were subsequently conveyed to BC Hydro in a letter

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<sup>1</sup> VIEC Reply Argument, Section 2.3 Product Options, p.40

dated November 21, 2003, (a copy of which was provided to the Commission by way of letter dated November 28, 2003). Representatives of the JIESC also attended the BC Hydro Forum on Vancouver Island Generation Capacity hosted December 19, 2003 in Nanaimo by BC Hydro (the "Forum") to learn more about the CFT and to discuss concerns that the JIESC had with the CFT. To date, the JIESC has not received a response from BC Hydro to its letter of November 19, 2003.

The JIESC appreciates and was encouraged by BC Hydro's willingness to host the Forum and meet with interested parties to discuss the CFT and the issues and concerns of such parties. While the Forum discussions were generally informative and quite interactive, they tended to be restricted to discussions regarding new generation capacity on Vancouver Island, and as a result, concerns regarding other options and alternatives, including demand side management, extending the DC lines or installing the new transmission lines, or whether the CFT would result in the least cost solution to address the Island's problems could not be addressed. The JIESC is concerned that by not exploring all options and alternatives in the CFT, ratepayers cannot be assured that the capacity shortfall on Vancouver Island will be resolved using the least cost solution. Expanding the CFT to include demand side management options and other alternatives could encourage a variety of innovative and cost effective solutions to come forward. To suggest an example, an industrial consumer might submit a proposal premised on it installing appropriate storage facilities to enable it to continue producing product during a period of time when BC Hydro needed to curtail or shift part of the industrial's demand for power. With the storage facilities in place, the industrial consumer could shift its demand to off-peak periods and thereby reduce peak generation requirements. The costs associated with the new storage facilities and load shifting incentives associated with such a proposal could be significantly lower than the cost of installing 300 MWs of new generation.

The JIESC is encouraged that BC Hydro has heard its (and others') concern that the CFT did not permit dual-fuelled projects. At the Forum, BC Hydro indicated that the CFT would now consider dual-fuelled projects. Regrettably, the discussions at the Forum surrounding dual-fuelled projects and the evaluation of such projects also revealed that BC Hydro had not yet fully considered how such proposals would be evaluated. For example, it was not clear whether any value would be credited to a dual-fuelled proposal for the storage facilities and stored alternate fuel supplies in the event of a disruption in natural gas supplies or periods when the stored alternative fuel supplies were less expensive than natural gas.

The JIESC is further concerned that BC Hydro is seeking Commission approval of the CFT process, evaluation criteria and methodology without the benefit of public scrutiny or testing. BC Hydro has proposed a timeline for the submission of comments and the Commission approval of the CFT process. That timetable requires interested parties and bidders to provide their views on the CFT in writing prior to January 9, 2004. BC Hydro is to then file revised documents by January 13, 2004. The Commission is then expected to approve the CFT process and evaluation criteria and methodologies by January 23, 2004.

We write to request that the Commission establish a formal process to review the CFT and the evaluation methodology. At the Forum and in a subsequent letter BC Hydro indicated that it would seek Commission approval of the CFT process. We encourage the Commission not to accept BC Hydro's proposed timetable without direct input from interested parties, stakeholders

and BC Hydro. At the Forum, BC Hydro likened the CFT process to that of an application before the Commission. There are approximately 23 bidders and numerous stakeholders who have a substantial interest in this process and its outcome. There are also a number of differences between BC Hydro, stakeholders and bidders as to whether the CFT process will lead to the most cost-effective and beneficial solution. These differences remain unresolved and we submit that they should be addressed before the Commission renders a decision on the CFT process. Assuming that the CFT is like an application, then it is unreasonable and untenable that interested parties and stakeholders should be required to submit comments before they have had a reasonable opportunity to assess and test all documents, procedures, methodologies and evaluation assumptions and spreadsheets. We respectfully remind the Commission of its comments in the VIGP Decision at page 71, where the Commission stated:

In future applications, the Commission Panel expects BC Hydro to use assessment models which can be made public so that the various components and assumptions can be assessed and tested by intervenors.

The Commission has the discretion to direct that the parties participate in a process, in order to ensure that the process that the Commission is being asked to approve is in the public interest and to ensure that the Commission is fully informed of all issues before rendering its decision. The JIESC is prepared to participate in whatever review process the Commission deems appropriate. The JIESC is concerned that if the Commission endorses the CFT process and methodology without the benefit of stakeholder scrutiny, ratepayers run the risk of having to absorb and pay for a solution on Vancouver Island that is neither the least cost nor the most beneficial solution to the capacity shortfall on the Island.

In addition to the foregoing, and to emphasize the need for further discussion and review, the JIESC submits the following comments. The following list is not exhaustive, but merely illustrative given the JIESC's brief review of the limited documentation available to interested parties.

1. Whether the CFT will result in the least cost or most beneficial solution to Vancouver Island's capacity problems;
2. Whether the evaluation criteria that credits proposals that include VIGP with \$50 million, as opposed to the \$20 million for proposals that do not include VIGP creates a bias in favour of proposals including VIGP. The JIESC is concerned that the terms and conditions of the CFT, the bid quantity of up to 300 MW, and the tolling arrangements and term appears designed to accommodate a gas plant at Duke Point and the GSX pipeline (or a single TGVI pipeline) at the exclusion of other more cost-effective and reliable solutions;
3. Whether the inclusion of transmission deferral credits creates a bias in favour of large scale projects with a production capacity greatly exceeding the capacity shortfall on the Island. The JIESC is concerned that the proposed transmission deferral credits (value for delaying installation of new transmission cables to the Island) suggests a bias to larger VIGP-like proposals and ignores the evidence of BC Hydro at the VIGP hearings with respect to the need for new transmission lines in any event. More importantly, the JIESC is concerned that there has been no evidence presented, either at the VIGP hearing, or

subsequently, that it is in the public interest to delay the construction of new transmission lines to the Island. Without a full assessment of whether such a delay and the cost associated (such as, increases in fuel costs, increases in the risk of fuel supply uncertainty) with such a delay is in the public interest, the notion of transmission deferral credits should be eliminated from the CFT. If, however, BC Hydro is reconsidering the timing and need for new transmission lines to the Island, and then perhaps the present CFT should be limited to a call for capacity of 150 MW to permit BC Hydro to file the appropriate evidence to support a delay in the construction of new transmission lines. Alternatively, perhaps the capacity sought for 2007 in CFT could be limited to the 150 MW as found to be needed by the Commission in the VIGP hearings, and, subject to an assessment regarding the timing of new transmission lines, the CFT could be amended to permit proposals that reflect staged additions of further capacity commencing after 2007 that is more consistent with increases in demand;

4. Whether the requirement that the proposed generation capacity, if must-run, must have a 97% reliability factor is reasonable and cost effective. In its decision regarding the VIGP, the Commission after discussing reliability levels of the 500 kv lines, the HVDC lines, ICP and Burrard Thermal, noted that BC Hydro has considerable discretion in determining what it considers to be dependable capacity.<sup>2</sup> As the Commission will recall, the evidence of Mr. Mansour during the VIGP hearing was that a combination of generation and transmission to the Island were the preferred options.<sup>3</sup> The JIESC is concerned that BC Hydro is demanding unrealistic reliability factors in the CFT given the historical availability of the ICP and Burrard Thermal power plants and is imposing unduly harsh liquidated damages clauses in the power purchase agreements (even in those agreements where BC Hydro assumes the price risk on fuel). As a result, BC Hydro may be unnecessarily increasing the costs of any new generation proffered in the CFT;
5. Whether the quantitative evaluation methodology considers and treats all proposals equitably and fairly. At the Forum, BC Hydro asserted several times that the capacity sought in the CFT must be available in 2007, regardless of the actual demand at that time. When asked whether BC Hydro would consider proposals that started with the minimum 150 MW, and increased to 300 MW of new capacity over a time line that responded to increases in demand, BC Hydro responded that it had not and would not likely consider such a proposal in this process. This response reiterates the need to assess whether the CFT is biased in favour of a VIGP-like proposal and whether it will result in the least cost solution to Vancouver Island's problems on a discounted cash flow basis. Furthermore, this response reiterates the need to assess the CFT in light of the transmission deferral credits to be assigned to projects;
6. Whether the evaluation procedure, as currently proposed by BC Hydro, results in a bias generally towards a VIGP-like proposal. The JIESC is concerned that BC Hydro has developed an evaluation procedure that requires BC Hydro personnel to make

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<sup>2</sup> Decision of BCUC re VIGP dated September 8, 2003, pp.7-8

<sup>3</sup> VIGP Transcript, Vol. 4, pp.780-789

- assumptions and subjective considerations that are already the subject of considerable discussion. As indicated in the JIESC's letter dated November 21, 2003, it is concerned that small changes in the portfolio analysis with respect to changes in natural gas and electricity prices and forecasts will have a significant impact on the evaluation of the proposals, particularly when the evaluation includes an assessment and valuation of the energy produced. At the Forum, representatives of BC Hydro suggested that the evaluation spreadsheets would be made available only to bidders and the Commission. At that time, it was suggested that if stakeholders wished to receive copies of the spreadsheets they could seek them from the Commission. The JIESC has subsequently been advised that the spreadsheets will not be made available to non-bidders as they contain confidential information. The JIESC is concerned that non-disclosure of the spreadsheets is inconsistent with earlier statements made by BC Hydro and the Commission's direction that all information be subject to public scrutiny and assessment;
7. The JIESC is also concerned that the price forecasts that BC Hydro is using are stale and not indicative of changing market conditions. At the VIGP hearings, there was considerable evidence and discussion as to the validity of the price forecasts used by BC Hydro when compared to the market forecasts based on present and medium term market driven natural gas contracts. The JIESC remains concerned that BC Hydro's price forecasts are out of date and out of sync with the realities of the market. The JIESC remains concerned that BC Hydro's assumptions regarding the relationship between natural gas and electricity prices may also be out of date and inconsistent with changing dynamics in market conditions. In order to minimize the potential for dispute all underlying assumptions (including all assumptions relating to the relationship, if any, between natural gas prices and electricity prices), all price forecasts and any other subjective considerations in the quantitative evaluation methodology must be made public and subjected to testing and assessment by stakeholders and interested parties. It is only after such testing and assessments have been made, that stakeholders and interested parties can provide comments on the process;
  8. BC Hydro has indicated that the CFT is a call for new capacity on Vancouver Island. However, the evaluation methodology appears to depend on the cost and value of the energy produced at times when the capacity is not required. This methodology raises the concerns expressed at the VIGP hearings that the capacity installed will exceed the capacity shortfall and the resultant excess capacity will be economically dispatched quite frequently. Although BC Hydro has indicated that it will lift the restriction that any excess power must be supplied to BC Hydro, the JIESC remains concerned that the costs of and the risks associated with any installed capacity will ultimately be borne by the ratepayers;
  9. The JIESC is also concerned that the CFT has effectively become both a call for capacity and a call for energy. As a call for energy, the CFT should be a province-wide call and should permit a consideration of all possible fuel and energy sources and potential, not just those using "proven" technology (including, but not limited to replacement of the DC lines, or installation of new transmission lines to the Island).

The JIESC respectfully urges the Commission to establish a process that permits public scrutiny and testing of the CFT process and the evaluation methodologies before parties invest significant resources and time in a process that might later be deemed inappropriate.

Yours truly

MILLER THOMSON LLP

Per:

Charles W. Bois  
CWB/ht

c. [BC Hydro](#)  
[Interested Parties](#)