

# 1 INTRODUCTION

## 1.1 *Context of the Inquiry*

This proposal is the second of two volumes that, together, have been filed by BC Hydro in response to Commission Order No. G-23-03. Volume 1 deals with all aspects of the Heritage Contract, and contains BC Hydro's proposal with respect to paragraph 3 of the Terms of Reference. This volume covers paragraph 4 of the Terms of Reference, which asks the Commission to make recommendations concerning the design of stepped rates for BC Hydro's transmission voltage customers. Paragraph 4 of the Terms of Reference states:

"The Commission shall make specific Recommendations relating to any changes it believes are desirable in the rates of transmission voltage customers to accomplish the objectives set out in the Energy Plan, including:

- (a) The terms and conditions that should govern existing and new large industrial or transmission rate customers' access to transmission for the purposes of acquiring power from other energy suppliers' generation;
- (b) The detailed provisions of new stepped rate schedules as more fully described in the Energy Plan, including load aggregation by a customer with facilities at more than one location; and
- (c) The principles which should govern the terms and conditions under which large industrial or transmission rate customers wishing to obtain generation from alternate suppliers may decline to obtain service from BC Hydro or may apply to obtain service from BC Hydro thereafter."

The Energy Plan describes the new BC Hydro rate structures for transmission voltage customers as follows:

**"Policy Action #14 (new): Under new rate structures, large electricity consumers will be able to choose a supplier other than the local distributor.**

New stepped pricing...will provide an incentive for large industrial or transmission rate customers to purchase from IPPs, or to self generate, when they can do so less expensively than the utility's cost of new supply. These larger customers will be able to meet all or a portion of their consumption from private generation. This policy change introduces retail competition for large BC Hydro customers."

**“Policy Action #21 (new): New rate structures will provide better price signals to large electricity consumers for conservation and energy efficiency.**

The BC Utilities Commission will conduct a hearing to develop new stepped and time-of-use pricing for BC Hydro’s industrial and large commercial customers. As a principle, for stepped rates, the last block of energy consumed should reflect the cost of new supply. This will encourage these customers to meet part of their electricity needs through conservation and energy efficiency, or from other sources (self-generation or IPP purchases), where they can do so cost-effectively. To keep rates low overall, the stepped rate structure will be revenue-neutral... Time-of-use rates will encourage customers who can manage the timing of their electricity use to shift consumption to low-priced off-peak periods.”

### **1.2 Overview of Stepped Rates**

BC Hydro believes that stepped rates, as contemplated in paragraph 4(b) of the Terms of Reference, provide an opportunity to encourage its customers and privately owned suppliers to make new investments that are beneficial to the province, while preserving the benefits of low, embedded cost rates. In addition, the stepped rate design will enable BC Hydro customers and Independent Power Producers (IPPs) to make mutually beneficial direct access arrangements.

A stepped rate design will feature different prices for different blocks of energy consumption. For example, in each billing period energy consumption up to “X” MWh is priced at a “Tier 1” rate, while consumption above “X” MWh is priced at a “Tier 2” rate. When suitably designed, the Tier 1 and Tier 2 rates and the cut-off point between them are parameters that can help achieve the various policy objectives in the Energy Plan. On the other hand, if the parameters of the stepped rate are not designed carefully, there could be undesirable incentives, which are discussed below.