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## **BYPASS RATE GUIDELINES**

The purpose of these Guidelines is to provide direction as to how the British Columbia Utilities Commission (“the Commission”) may consider bypass applications from the British Columbia Hydro and Power Authority (“B.C. Hydro”, “the Utility”) and its customers.

### Application to Approve a Bypass Agreement

A B.C. Hydro customer receiving service on Rate Schedule 1211 who wishes to receive service on Rate Schedule 1821 (or its related schedules), and who believes that it can lower its cost of electricity by constructing and operating facilities that would bypass B.C. Hydro's distribution system, may seek a bypass rate from the Commission by filing an application. This application may be filed by the customer alone, or may be filed jointly with B.C. Hydro.

### Customer Choices

Where a customer has been offered a bypass rate reflective of a charge no higher than the Customer's Cost of Bypass, the customer will be offered the choice to accept that rate or remain on Rate Schedule 1211.

### Customer's Cost of Bypass

In seeking a bypass rate, the customer should provide the Commission with a study detailing its proposed bypass facility. Such a study should include the following:

- (i) a description of the bypass facility;
- (ii) an implementation plan for the bypass facility, including an assessment of the customer's ability to obtain necessary approvals, rights-of-way, and other conditions required for the operation of the bypass facility;
- (iii) the business case describing the viability of the proposed bypass facility; and
- (iv) an analysis of the after-tax cost of constructing, operating and maintaining the bypass facility, and any other facilities required by the customer to operate the bypass facility.

Item (iv), called the “Customer's Cost of Bypass” should be calculated in accordance with the following principles:

A schedule of bypass assumptions should be created, encompassing information about:

- the bypass facility's physical and technical characteristics;

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- financial assumptions, including capital requirements, operating and maintenance expenses, taxes, depreciation and capital cost allowance rates, inflation rates, and amortization period; and
- the customer's capital structure assumptions, including debt-to-equity ratio, cost of debt, and required return on equity.

In translating these assumptions into the Customer's Cost of Bypass, all calculations should be made on an after tax basis. The amortization period of any assets should be equal to the life of the bypass agreement, and the latter may or may not include early termination or renewal clauses. In deriving levelized monthly or annual charges equivalent to the customer's costs, the discount rate to be used should be an estimate of the customer's required rate of return for new investments.

B.C. Hydro's Incremental Cost of Service

The Commission will review the customer's information. If the Commission determines that the proposed bypass facility is viable and credible, B.C. Hydro will be asked to assess and submit (if it has not done so as part of a joint application) its own "Incremental Cost of Service" in accordance with, but not limited to, the following principles:

- A schedule of incremental cost assumptions should be created, encompassing information about affected Utility assets, load growth forecasts respecting those assets, and the nature, scheduling and costs of foreseeable reinforcements with and without the customer's proposed bypass.
- In the Utility's Incremental Cost of Service, the Utility should forecast all relevant operating and system costs and discount these at the Utility's weighted average cost of capital.

Rate Schedule 1821 Plus Rider

Where the Customer's Cost of Bypass exceeds B.C. Hydro's Incremental Cost of Service, the customer should be offered the opportunity to switch from Rate Schedule 1211 to Rate Schedule 1821 upon payment to B.C. Hydro of an amount equal to the Customer's Cost of Bypass. The form of this payment should be a rider added to Rate Schedule 1821, payable to the Utility over a period equal to the expected life of the bypass facility (anticipated to be approximately 20 years), and financed at the customer's service is terminated during the term of the payment period.

Rate Schedule 1821 Plus Bypass Construction

Where the Customer's Cost of Bypass is less than B.C. Hydro's Incremental Cost of Service, the Commission expects that no bypass rate would be offered and the customer would be free to either remain on Rate Schedule 1211 or construct the facilities necessary to qualify for Rate Schedule 1821.

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Confidentiality

Requests for confidentiality under any part of these Guidelines will be considered on their merits, according to the terms of the *Utilities Commission Act* and Section 21 of the *Freedom Of Information and Protection of Privacy Act*. Where the Commission deems that confidentiality is justified, it will make determinations to accommodate that circumstance.

Commission's Disposition of the Application

The Commission may: (1) issue an Order approving an agreement between B.C. Hydro and the bypass customer, pursuant to Sections 60 and 61 of the *Utilities Commission Act* and in the form of a Tariff Supplement. Should a proposed agreement be unsatisfactory to the Commission, the Commission will either: (2) propose amendments to the contract, and request that the applicant(s) re-submit it; (3) undertake the process necessary to allow the Commission to amend the application before it; or (4) reject the application before it.



BRITISH COLUMBIA  
UTILITIES COMMISSION

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NUMBER G-88-99

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IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by British Columbia Hydro and Power Authority  
for Approval of Bypass Rate Guidelines

BEFORE: P. Ostergaard, Chair )  
L.R. Barr, Deputy Chair ) September 2, 1999  
P.G. Bradley, Commissioner )  
B.L. Clemenhagen, Commissioner )

**O R D E R**  
**WHEREAS:**

- A. On October 2, 1998, the Commission issued Order No. G-89-98, directing British Columbia Hydro and Power Authority ("B.C. Hydro") to remove the 5,000 kV.A minimum billing demand from Rate Schedules 1821 and 1848; and
- B. The same Order directed that Rate Schedule 1211 customers, currently taking service at distribution voltage, hold in abeyance any requests to move to Rate Schedule 1821 until after the filing and review of B.C. Hydro's Transmission Extension Policy; and
- C. The same Order directed that the Transmission Extension Policy was to be filed by November 30, 1998, which was later extended to December 7, 1998; and
- D. The Commission expected that the Transmission Extension Policy would address the potential impacts on B.C. Hydro's system created by customer rate-switching; and
- E. By letter dated November 25, 1998, B.C. Hydro indicated that the Transmission Extension Policy would not address the issue of potential rate impacts created by customer rate-switching and stated that this issue would be addressed by a bypass rate application to be filed with the Commission in early 1999; and
- F. On December 11, 1998, the Commission issued Order No. G-111-98, in which it directed B.C. Hydro to file a bypass rate application by February 1, 1999 that addressed the issue of potential impacts created by customer rate-switching; and
- G. The same Order rescinded the portion of Order No. G-89-98 which directed that Rate Schedule 1211 customers currently taking service at distribution voltage would have any requests to move to Rate Schedule 1821 held in abeyance until after the filing and review of B.C. Hydro's Transmission Extension Policy; and
- H. On February 2, 1999, B.C. Hydro applied, pursuant to the Utilities Commission Act and, in particular Section 61 thereof, for an Order of the Commission approving B.C. Hydro's Bypass Rate Guidelines (Tariff Supplement No. 44) (the "Application"), which would be available to all B.C. Hydro's general and transmission rate schedule customers; and
- I. On February 8, 1999, Commission staff sent B.C. Hydro a set of information requests related to the Application and on March 1, 1999, B.C. Hydro responded to these information requests; and

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- J. The Commission received letters of comment on the Application from Lex Engineering Ltd., Willis Energy Services, Ltd., Aquila Canada Corporation, and the City of New Westminster; and
- K. Commission Order No. G-31-99, dated March 18, 1999, established a written public hearing into the Application. Evidence and argument was filed in that proceeding by B.C. Hydro, while argument was submitted by Aquila Canada Corporation, The Joint Industry Electricity Steering Committee, Willis Energy Services, Ltd., Columbia Power Corporation, The Consumers Association of Canada (B.C. Branch) et al., and Fording Coal Ltd. The hearing concluded with reply argument on June 30, 1999; and
- L. The Commission has considered the Application, the evidence, and the argument before it in this matter.

**NOW THEREFORE** the Commission orders as follows:

The Commission does not accept B.C. Hydro's Application for an Order approving the Bypass Rate Guidelines (Tariff Supplement No. 44). Instead, the Commission is issuing the Bypass Rate Guidelines (Attachment A to the Commission's Decision on this matter) to assist parties in the preparation of bypass rate applications to the Commission.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 3<sup>rd</sup> day of September 1999.

BY ORDER

*Original signed by:*

Peter Ostergaard  
Chair

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**List of Registered Intervenors**

Mr. Allen Crowley	Aquila Canada Corporation
Mr. Ron Zeilstra	Columbia Power Corporation
Mr. J. David V. Newlands	Fording Coal Ltd.
Mr. Paul Willis	Willis Energy Services Ltd.
Ms. Penny Cochrane	City of New Westminster
Mr. Richard Gathercole	Consumers' Association of Canada (B.C. Branch) et al. [British Columbia Old Age Pensioners' Organization, Council of Senior Citizens' Organizations of B.C., Federated Anti-Poverty Groups of B.C., Senior Citizens' Association of B.C., West End Seniors' Network, Kootenay-Okanagan Electric Consumers Association]
Mr. Robert H. Hobbs	West Kootenay Power Ltd.
Mr. R. Brian Wallace	Joint Industry Electricity Steering Committee