
CITY OF KELOWNA

MEMORANDUM

Date: October 27, 2004
File No.: 1824-02
To: City Manager
From: Electrical Utilities Manager
Subject: Wholesale Power Purchase Agreement – FortisBC Inc.

RECOMMENDATION:

THAT the City of Kelowna enter into a new 5 year contract with FortisBC Inc. for the supply of power to the City of Kelowna's electrical utility in accordance to the terms and conditions outlined in the report of the Electrical Manager dated October 27, 2004,

AND THAT the Mayor and City Clerk be authorized to execute the contract documents.

BACKGROUND:

As a Municipality, the City of Kelowna along with the Cities of Penticton, Nelson, Grand Forks, District of Summerland and Princeton Light & Power are all eligible to purchase Wholesale Power for resale through FortisBC under rate tariff "Schedule 40 – Wholesale Service –Primary Power". Under this wholesale tariff FortisBC generates approximately 48% of their own power, they purchase from Columbia Power Corp (Brilliant Agreement) 30%, they purchase from BC Hydro 22% and they purchase off the open market about 1%. They usually have surplus sales during the year of 1%. In order to obtain the wholesale tariff rate the City is subject to a signed written agreement.

The City of Kelowna's current wholesale power purchase agreement terminated on October 31, 2004. Both the City and FortisBC have now reviewed the agreement and feel only a minor change is required at this time. This change affects a boundary adjustment (see attached maps) in order to accommodate new development on each others electrical grids. These changes form part of the agreement and are listed under Appendix "B"

For Councils assistance I have summarized four key points of the agreement and commented how they affect or benefit the City at this time.

1. Access Principals Agreement

This is a newer clause to the agreement and probably the most important for us as municipalities. The Interior Municipal Electrical Utilities (IMEU) negotiated through a "Negotiated Settlement Process" (NSP) in September 1998 with WKP (now FortisBC) and the British Columbia Utilities commission (BCUC), the right to leave its current electricity supplier (given proper notice) if the market appears to be beneficial for the muni's and return back to its original supplier if and when the market is non-beneficial.

Key point to this clause is that the Company and BCUC recognized that all IMEU members are in a unique situation because they actually have rights to a "Stranded Benefit" with their currently supplier instead of having to pay for a "Stranded Asset" not like the scenario that happened in California and Ontario where the customers are required to pay down any utility debt.

2. Duty to Act Prudently in Arranging for Electricity Supply

This is a clause that indicates the Company has a duty not to be imprudent when arranging for the supply of electricity and the Company will be liable to the Customer for any loss, injury, damage or expense caused to the Customer if the BCUC determines that the Company has failed to meet its duty to be prudent.

Key point to this clause is that the Company is now buying and selling power on the open market and at times creates risk for the end use customer such as ourselves. If the Company is found to be imprudent the City can make claim on any lose.

3. Billing Adjustments

This is a clause added to capture suspension or reduction in Service which may automatically create a peak Demand on the monthly power bill. The Company has agreed to a mutual understanding of an adjustment if an occurrence like this should happen. The adjustment shall be determined in consideration of weather conditions and previous load experience.

Key point being that if a power outage occurs, once the system powers back up, if the peak demand created by the Company has artificially spiked a high demand charge to the customer this will not form part of the customers monthly billing record.

4. Liability, Indemnity, Limitations and Requirements for Notice

The proposed contract puts onus on the Company for direct loss or damage to physical property of the Customer, resulting from willful misconduct or negligent acts or omissions by the Company. It also indicates that if the Customer has given notice to the Company of a potential claim within 30 days it will have to act upon that claim. Claims must be a single occurrence and greater than \$10,000.00.

Previously WKP (now FortisBC) had experienced problems with their generation plant in Trail which caused some high voltage damage to the City of Nelson's plant. There was question as to how much liability the Company had to cover. This clause now makes it clear and holds the Company liable up to the set limit amount with all its Wholesale Power Purchase customers. .

Two other Municipal Electric Utilities (City of Nelson, City of Grand Forks), are just finalizing their agreements and should be completed by end of this year. City of Penticton and District of Summerland's agreements run until the fall of 2006.

To: City Manager
From: Electrical Manager

Page 3

October 27, 2004

It should be noted that as part of City's Electric Utility Public, Private, Partnership RFP, it was identified that the current supplier of electricity was providing the best deal for the City for Wholesale Power and the City should continue its contract with its current provider FortisBC.

Rod Carle, Electrical Utilities Manager



Approved for inclusion:
John Vos
Director of Works & Utilities

cc: City Clerk
Director of Finance