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British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC, V6Z 2N3
Attn: Patrick Wruck, Commission Secretary
By Web Posting

Dear Sir:

Re: British Columbia Hydro and Power Authority
F2017 to F2019 Revenue Requirements Application
BCUC Project No. 3698869
B.C. Sustainable Energy Association and Sierra Club B.C.
Final Argument on F2019 Rate Freeze Request

This is the final argument of BCSEA-SCBC pursuant to the regulatory timetable set out in the Commission's letter of December 13, 2017.¹ This responds to BC Hydro's final argument dated December 21, 2017.

BCSEA-SCBC oppose Commission approval of a 0% rate increase in F2019 in place of the 3% rate increase that is allowed under Direction No. 7 and that itself only partially recovers the F2019 revenue requirement.

1. Commission approval of the rate freeze would be contrary to the principle of intergenerational equity. The rate freeze would unnecessarily force future ratepayers to pay for the electricity service received by current ratepayers.
2. The rate freeze would foist onto future ratepayers the repayment of some 140 million dollars for F2019 alone. This is a very substantial amount of money.
3. The rate freeze would necessitate five years of annual rate increases of 3.8%,² instead of 2.6%, in each of F2020, F2021, F2022, F2023 and F2024, just to clear the Rate Smoothing Regulatory Account all else equal.
4. The rate freeze would be contrary to the Bonbright principle that rates should set price signals that encourage efficient use and discourage inefficient use. BC Hydro's rates are already below the true cost of service, and this would be unnecessarily exacerbated by the proposed rate freeze. The proposed F2019 rate freeze in combination with the F2017 and F2018 rate caps would result in F2019 rates that are approximately 10% lower than they would have been in the absence of the rate smoothing account.³

¹ Exhibit A-35.

² Exhibit B-25, BCUC 4.6.3; BCOAPO 4.147.1, Scenario 2.

³ Exhibit B-25, BCSEA 4.4.2.

5. There is no valid rationale for the rate freeze. BC Hydro's only argument in support of the rate freeze is that the Government wants one.⁴ The Government's August 2017 Mandate Letter requires BC Hydro to request a rate freeze, but it certainly does not require the Commission to approve a rate freeze.
6. The Government's statement that a rate freeze "will provide government the time to undertake a comprehensive review of BC Hydro"⁵ is not a logical reason for the Commission to approve a rate freeze. An F2019 rate freeze is not a prerequisite for any of the potential mechanisms for reducing BC Hydro's revenue requirement such as the development of a refreshed rates plan and a review of BC Hydro.⁶ Nor is there any reason to suppose that denial of the rate freeze would jeopardize the success of the review of BC Hydro in any way.
7. Similarly, BC Hydro's attempt to link the rate freeze and future measures to reduce BC Hydro's costs⁷ is without merit, with respect. The review of BC Hydro and the "refreshed plan for rates" will presumably go ahead whether or not the Commission approves a rate freeze for F2019. And, BC Hydro acknowledges that it can convey the government's expressed intention to conduct the review and develop a refreshed rate plan, but not the results.⁸
8. A rate freeze in F2019 would be inconsistent with the purpose of the Rate Smoothing Regulatory Account to "to keep rate increases as gradual and predictable as possible..."⁹ In fact, a rate freeze in F2019 would interrupt the gradual decline in rate increases – from 3.0% in F2019 to 2.6% in F2020 – and replace it with an abrupt spike in rate increases – from 0.0% in F2019 to 3.8% in F2020 and F2021 to F2024, all else equal. And a rate freeze in F2019 would reverse the predictability of the long-since announced 3% rate increase for F2019 and predicted rate increase of 2.6% for F2020.
9. BCSEA-SCBC are acutely conscious that many low income ratepayers face considerable challenges paying their BC Hydro bill. While a rate freeze would likely be welcomed by many low income, and other, ratepayers, BCSEA-SCBC note that a rate freeze in F2019 would only increase bills in future years. The \$140-million, plus interest,¹⁰ would still have to be paid back by ratepayers – the Government is not proposing to 'pick up the tab.'

For these reasons, BCSEA-SCBC respectfully submit that the Commission should deny BC Hydro's November 8, 2017 request¹¹ to change its requested rate increase for F2019 from 3% to 0% and to hold the Open Access Transmission Tariff rates for F2019 unchanged from F2018.¹²

⁴ Exhibit B-25, BCSEA 4.1.11; BCSEA 1.1.14.

⁵ Exhibit B-25, BCSEA 4.1.2.

⁶ Exhibit B-25, BCSEA 4.1.12.

⁷ Exhibit B-23, p.1; Exhibit B-25, BCSEA 4.1.6; Exhibit B-25, BCUC 4.1.3.

⁸ Exhibit B-25, BCUC 4.3.2; 4.6.4.

⁹ Exhibit B-1, section 7.5.24, cited by BC Hydro in Exhibit B-25, BCSEA 4.1.8, underline added.

¹⁰ BC Hydro estimates a financing cost of \$5.9 million, not compounded. Exhibit B-25, BCUC 4.1.2.

¹¹ Exhibit B-23.

All the above is respectfully submitted.

Yours truly,

William J. Andrews

A handwritten signature in black ink, appearing to be 'WJ Andrews', written over a horizontal line.

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¹² In the alternative, if the Commission does allow the F2019 rate freeze then BCSEA-SCBC take no position regarding the OATT rates for F2019.