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January 15, 2018

**VIA ELECTRONIC MAIL**

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**Attention: Patrick Wruck, Commission Secretary and Manager, Regulatory Support**

Dear Sirs/Mesdames:

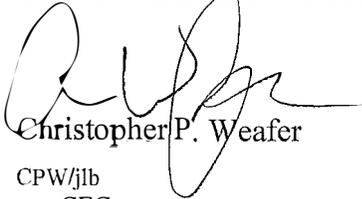
**Re: British Columbia Hydro and Power Authority 2017 – 2019 Revenue Requirements Application ~ Project No. 3698869**

We are counsel to the Commercial Energy Consumers Association of British Columbia (the "CEC"). Attached please find the CEC's Final Submissions with respect to the above-noted matter.

If you have any questions regarding the foregoing, please do not hesitate to contact the undersigned.

Yours truly,

**OWEN BIRD LAW CORPORATION**



Christopher P. Weafer

CPW/jlb  
cc: CEC  
cc: BC Hydro  
cc: Registered Interveners

**COMMERCIAL ENERGY CONSUMERS  
ASSOCIATION OF BRITISH COLUMBIA**

**FINAL SUBMISSIONS**

**British Columbia Hydro and Power Authority  
2017 – 2019 Revenue Requirements Application  
Project No. 3698869**

**January 15, 2018**

**Commercial Energy Consumers Association of British Columbia**

**British Columbia Hydro and Power Authority  
2017 – 2019 Revenue Requirements Application  
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**COMMERCIAL ENERGY CONSUMERS ASSOCIATION  
OF BRITISH COLUMBIA ('CEC')**

**FINAL SUBMISSIONS**

**British Columbia Hydro and Power Authority 2017 – 2019 Revenue Requirements  
Application - Project No. 3698869**

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1. The CEC represents the interests of ratepayers consuming energy under Commercial tariffs in applications before the BC Utilities Commission (the “BCUC” or “Commission”).
2. On July 28, 2016, BC Hydro and Power Authority (“BC Hydro”) filed the Fiscal 2017 to Fiscal 2019 Revenue Requirements Application. The Application covered fiscal 2017 (the fiscal year starting April 1, 2016) to fiscal 2019 (the fiscal year starting April 1, 2018). The requested orders were summarized in Part Thirteen of its Final Submission.<sup>1</sup> The CEC provided its Submissions with regard to the original application in June 2017.
3. On August 24, 2017 the BC Government issued a Mandate Letter to BC Hydro which identified several areas in which the Minister expects to work with BC Hydro.
4. One of these items included a request to:

“Freeze BC Hydro Rates and develop a refreshed plan to keep electricity rates low and predictable over the long-term while making significant investments to expand the system and maintain aging infrastructure.”<sup>2</sup>
5. Further to this letter, BC Hydro has amended its request for a 3 per cent rate increase for fiscal 2019 to 0 per cent for fiscal 2019.
6. The Commission has approved interim refundable rates for fiscal 2017 and fiscal 2018, pursuant to Order Nos. G-40-16, G-39-17 and G-46-17, but has made no orders with respect to fiscal 2019 to date.<sup>3</sup>
7. The CEC has reviewed the evidence on this matter and provides its the follow Final Submissions for the Commission’s consideration.

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<sup>1</sup> Exhibit B-23, pages 1-4

<sup>2</sup> Government Mandate Letter page 2

<sup>3</sup> Exhibit B-23, pages 1-4

## A. Summary

8. The CEC is concerned with BC Hydro's cost-effectiveness and the intergenerational equity issues in Rate Smoothing Regulatory Account, where ratepayer cost reductions are not forthcoming. The CEC is also concerned that BC Hydro has addressed a single element of the Minister's letter and has provided little reason for confidence that it can create cost-reductions or additional revenues for ratepayers of any significance in its anticipated 'comprehensive review'.
9. The CEC notes that the Commission is not required to follow the Minister's letter and has the discretion to make its own determinations in this matter.<sup>4</sup>
10. The CEC recommends that the Commission approve the requested rate freeze on an interim basis subject to the following caveats:
  - (a) That BC Hydro provide an update of its comprehensive review within 3 months and again at 6 months from the date of the Decision with high level estimates of cost reductions or revenue increases that can be achieved by 2020 and through to 2024 and a conceptual view of the rates that would be included in the 'refreshed rate plan'.
  - (b) That BC Hydro identify the timing for the completion of the 'refreshed rate plan' within 3 months from the date of the Decision. and
  - (c) That BC Hydro file a proposed recovery mechanism for the RSRA within 6 months of the date of the Decision.
11. The CEC recommends that the Commission reverse the rate freeze and recover the costs from all ratepayers accordingly within 3 to 6 months of the Decision if:
  - (a) it is not satisfied that the comprehensive review has been commenced and will likely result in sufficient cost reductions or revenue increases to offset the impact of the rate freeze;
  - (b) a high-level review of the refreshed rate plan does not provide sufficient comfort that rates will be low and predictable over the future and allow for recovery of the balance in the Rate Smoothing Regulatory Account in a timely fashion.
12. The CEC recommends that the Commission request BC Hydro to define its participation in any comprehensive review in terms of cost-effective utility standards and customer bill impacts.

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<sup>4</sup> Transcript Volume 8 page 403

13. The CEC stands by its June 2017 Final Submissions with regard to the other matters before the Commission in this proceeding.

## **B. BCUC Jurisdiction and Minister's Mandate Letter**

14. On November 23, 2017 the Commission Panel requested commentary on 'the discretion the Commission has when following what appears to be Ministerial policy, and whether there is discretion not to follow that apparent policy if there is insufficient regulatory justification.'<sup>5</sup> During that proceeding BC Hydro and other interveners recognized 'that the Minister's mandate is not a binding direction on the Commission such that it would circumscribe the Commission's jurisdiction.'<sup>6</sup>
15. BC Hydro argues that the Commission has on many occasions given consideration to expressions of government policy that have not been formalized in the form of a Special Direction.<sup>7</sup> Part 2 of BC Hydro's Final Argument outlines its view of why government policy should be given significant weight.
16. The CEC agrees that the Minister's Mandate Letter is a clear expression of government policy,<sup>8</sup> and the Commission has given significant weight to such expressions in the past.<sup>9</sup> As such, the CEC submits it is appropriate for the Commission to continue to provide significant weight to government policy at this time.
17. However, the CEC submits that the provision of significant weight does not necessarily provide adequate justification for approval where there may be other contraindications; and that the Commission should also exercise its best judgement with regard to the overall regulatory justification for the request.
18. The CEC submits that it is appropriate for the Commission to give weigh to its own views with regard to the ratepayer impacts of government policy, and BC Hydro's capability of providing low and predictable rates without causing undue intergenerational inequity through the use of deferral accounts.
19. BC Hydro points out that the government's announcement linked the rate freeze to a future comprehensive review of BC Hydro<sup>10</sup> and that the results of the comprehensive review would be reflected after the current test period.<sup>11</sup> Additionally, a 'refreshed rate

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<sup>5</sup> Transcript Volume 8 page 398

<sup>6</sup> Transcript Volume 8 page 403

<sup>7</sup> Transcript Volume 8, page 404

<sup>8</sup> BC Hydro Final Argument page 2

<sup>9</sup> BC Hydro Final Argument page 3

<sup>10</sup> BC Hydro Final Argument page 3

<sup>11</sup> BC Hydro Final Argument page 3

plan' to 'keep electricity rates low and predictable over the long-term while making significant investments to expand the system and maintain aging infrastructure' is also identified in the Minister's Mandate letter.<sup>12</sup>

20. The CEC submits that the comprehensive review of BC Hydro, and the 'refreshed rate plan' are key elements that have considerable bearing on the appropriateness of the rate freeze. To the extent that BC Hydro is capable of making significant reductions to its spending and is able to create a rate plan that maintains 'low and predictable' rates in a short window of time a rate freeze may provide an appropriate temporary period of relief.
21. However, the CEC submits that at present the comprehensive review and the refreshed rate plan remain highly uncertain. In the absence of better understanding the CEC submits that it is reasonable to consider that the rate freeze could result in undue additions to the Rate Smoothing Regulatory Account (RSRA) as discussed below in Impact of the Proposed Rate Freeze.
22. The CEC recommends that if the Commission determines that a rate freeze is appropriate at this time that it tie its approval to the undertaking of the comprehensive review and an understanding of the likely impacts of a 'refreshed rate plan' through the use of interim rates.

#### Interim Rates

23. The CEC notes that the Commission does have jurisdiction to allow for interim rates.
24. The Commission is not required to make a final order at this time with regard to rates for F2019. The Commission has the discretion to issue an order for interim refundable rates for fiscal 2019. It also has the discretion to defer making a decision, although an interim rates order would have to be issued by the Commission by early March, prior to the commencement of fiscal 2019 on April 1, 2018.
25. Fiscal 2019 rates, whether interim or permanent, must be in place by the beginning of March 2018 so as to take effect at the beginning of fiscal 2019 (April 1, 2018).<sup>13</sup>
26. BC Hydro is of the view that the Commission should approve final rates for fiscal 2019 at this time. They argue that the Minister's Mandate Letter to BC Hydro expresses the expectation that BC Hydro "will manage its programs and initiatives within its existing budget targets, unless otherwise directed." BC Hydro's "existing budget targets" the period fiscal 2017 to fiscal 2019 are before the Commission in this Application. BC Hydro points out that it has filed a substantial body of evidence that supports its forecast of test period revenue requirements, including discussion of a number of steps they have

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<sup>12</sup> BC Hydro Final Argument page 2

<sup>13</sup> Exhibit B-25, CEC 4.188.1

already taken to reduce costs. It is BC Hydro's expectation that the Government review and refreshed rates plan would not have implications until fiscal 2020. In such circumstances, it would be inefficient and unnecessary to revisit the evidence on fiscal 2019 revenue requirements or defer a decision on permanent rates.<sup>14</sup>

27. The CEC submits that BC Hydro has not provided sufficient evidence to justify the approval of final rates in the absence of more concrete information regarding the comprehensive review and refreshed rates plan as discussed later in these submissions.
28. BC Hydro is unable to provide details of either the comprehensive review nor the refreshed rates plan. BC Hydro interprets the 'refreshed plan' for rates to be a plan that BC Hydro and government will develop that will help inform future Revenue Requirement Applications to the Commission. BC Hydro expects the refreshed plan for rates will modify or replace the 2013 10 Year Rates Plan, but does not have further details at this time regarding the scope of any potential changes<sup>15</sup>.
29. The CEC submits that BC Hydro has the mandate and jurisdiction to submit its own refreshed rate plan to the Commission, and does not require government involvement to do so, other than to achieve government policy changes which may contribute to cost reductions or revenue increases. The CEC submits that the Commission has the mandate and jurisdiction to approve the revenue requirement and set rates, and the utility is responsible to the Commission for putting forward its revenue requirements and proposed rates directly to the Commission.

### **C. Other Elements of the Minister's Mandate Letter**

30. The CEC notes that the Minister's Mandate Letter contains multiple items that BC Hydro has not addressed in this rate application and how they can be incorporated with a rate freeze:
  - Refreshed rate plan;
  - Making significant investments to expand the system and maintain aging infrastructure;
  - Incorporating the United Nations Declaration on the Rights of Indigenous People and the Calls to Action of the Truth and Reconciliation Commission;
  - Participating fully in the BCUC review of Site C;
  - Delivering planned capital projects on time and on budget;
  - Immediately conducting a comprehensive review of BC Hydro ;
  - Supporting the creation of a roadmap for the future of B.C. energy that will drive innovation, expand energy efficiency and conservation programs;
  - Providing leadership in advancing government's climate action strategies;

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<sup>14</sup> Exhibit B-25, CEC 4.189.1

<sup>15</sup> Exhibit B-25, CEC 4.190.1

- Identifying further opportunities for clean energy in B.C.;
  - Performing system upgrades to be well-positioned to connect future customers;
  - Implementing the five-year safety plan;
  - Maintaining/improving customer service through timely and responsive service; and
  - Providing quarterly and annual performance reports.
31. The CEC made several information requests (69) related to the other aspects of the Minister’s letter, which were jointly replied to in BCOAPO 4.145.1.
32. BC Hydro states that it has focused on the rate freeze at this time because it is:
- ‘giving effect to that portion of the Minister’s Mandate Letter required us to seek an amendment to the Fiscal 2017 to Fiscal 2019 Revenue Requirements Application before the Commission made its decision.’<sup>16</sup>
33. BC Hydro’s view is that all other elements of the recent Mandate Letter are appropriately reflected in the revenue requirements for the fiscal 2017 to fiscal 2019 test period. They note that a number of the activities described in the Mandate Letter were detailed in BC Hydro’s original Application. BC Hydro also notes that their rate freeze application stated: “BC Hydro is maintaining its requests related to the fiscal 2019 demand-side management expenditure schedule as well as the total revenue requirements for fiscal 2019.”
34. The CEC submits that ‘maintaining (BC Hydro’s existing) requests related to fiscal 2019 demand-side management expenditure schedule does not reflect either:
- (a) The Minister’s mandate letter ‘requiring BC Hydro to expand energy efficiency and conservation programs’, nor
  - (b) the Commission’s Site C inquiry report demonstrating the efficacy of additional demand side management.
35. BC Hydro further notes that the Mandate Letter states “it is expected that BC Hydro will manage its programs and initiatives within its existing budget targets, unless otherwise directed.” BC Hydro’s “existing budget targets” are the forecast revenue requirements for the period fiscal 2017 to fiscal 2019 that are before the Commission in this application.
36. To the extent that these other elements give rise to such costs during the fiscal 2017 to fiscal 2019 test period, are not subject to deferral, and cause a variance from Commission-approved revenue requirements, any such variances will be to the account of the shareholder. Over the coming months, BC Hydro plans to work with government to

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<sup>16</sup> Exhibit B-25, BCOAPO 4.145.1

determine the activities required to support these expectations and will take the time to consider how these activities will be resourced, the timeline for conducting these activities and their impact on BC Hydro's revenue requirements after this test period. Any proposals will be the subject of a future application.

37. BC Hydro considers that:
  - There are no other elements of the August 24 Mandate Letter that the Commission should consider when making its determination regarding BC Hydro's Fiscal 2017 to Fiscal 2019 Revenue Requirements Application;
  - Additional Commission approval for any costs associated with Mandate Letter activities in fiscal 2019 is not required as those costs are already reflected in BC Hydro's revenue requirements in its original Application; and
  - The rate freeze application has not been prioritized relative to other elements contained in the Mandate Letter.<sup>17</sup>
38. BC Hydro also states that it did not wait for the results of the comprehensive review of BC Hydro as the review is expected to take significant time and the rate freeze is mandated for fiscal 2019.<sup>18</sup>
39. The CEC submits that implementation of the rate freeze in the absence of explicit planning for the above other items and in particular for the comprehensive review, and the 'refreshed rate plan' does prioritize the rate freeze relative to the other elements of the Mandate Letter.
40. The CEC submits it would be appropriate for the Commission to examine the entirety of the Minister's Mandate letter and determine whether or not there is regulatory justification for the provision of all elements when assigning weight to the Minister's Mandate letter. To the extent that the Commission deems that the Letter outlines a variety of elements that may not be viable as a whole from a cost perspective, the CEC submits that it would be prudent to avoid assigning priority to the rate freeze.

#### **D. Impact of Proposed Rate Freeze and Intergenerational Inequity**

41. If the Commission approves BC Hydro's amended request for a 0 per cent rate increase for fiscal 2019, then the shortfall between BC Hydro's approved revenue requirements for fiscal 2019 and BC Hydro's forecast revenue for fiscal 2019 must be deferred to the Rate Smoothing Regulatory Account pursuant to Direction No. 7. The Commission may not attribute the costs to be deferred to the account of the shareholder.<sup>19</sup>

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<sup>17</sup> Exhibit B-25, BCOAPO 4.145.1

<sup>18</sup> Exhibit B-25, BCSEA 4.1.2

<sup>19</sup> Exhibit B-25, BCUC 4.2.3

42. BC Hydro states that the rate freeze, will, other things being equal, result in an estimated additional \$142.3 million flowing to the Rate Smoothing Regulatory Account.<sup>20</sup> Additionally, annual carrying costs are estimated at \$5.9 million for F2020-F2024 assuming a mix of short and long-term debt, and assuming interest is not compounding.<sup>21</sup>
43. The CEC submits that BC Hydro's assumption regarding compounding may not be appropriate, and that the interest costs could therefore be slightly higher than predicted.
44. BC Hydro states that the long-term implications and risks of the rate freeze will depend on the approved rates in fiscal 2020 and future years. The results of the comprehensive review of BC Hydro that will be undertaken and the refreshed plan for rates will be reflected in rates starting in fiscal 2020.<sup>22</sup> In the Procedural Conference BC Hydro stated that 'the refreshed rates plan would take care of [the recovery of the deferral account balances] going forward in future years.'<sup>23</sup>
45. BC Hydro acknowledges however that at this time it is only in a position to 'relay the Government's expressed intention to conduct a comprehensive review and to develop a refreshed plan for rates, and not the results.'<sup>24</sup> Similarly, BC Hydro's response to an Information Request regarding the 'refreshed rate plan' is similarly vague. BC Hydro states:

'BC Hydro interprets the 'refreshed plan' for rates to be a plan that BC Hydro and government will develop that will help inform future Revenue Requirement Applications to the Commission. BC Hydro expects the refreshed plan for rates will modify or replace the 2013 10 Year Rates Plan, but does not have further details at this time regarding the scope of any potential changes'.<sup>25</sup>
46. The CEC submits that the comprehensive review and notion of a refreshed rate plan provide little security for a Commission decision to make a permanent rate freeze in the face of such uncertainty.
47. The CEC notes that the original 3% increase was a permanent rate increase, and a rate freeze with zero percent increase would theoretically result in a failure to recover the \$140 million not only in the test year, but also in all subsequent years. BC Hydro does not agree that the foregone revenue as a result of the rate freeze would require a change

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<sup>20</sup> BC Hydro Final Submission page 13

<sup>21</sup> Exhibit B-25, BCUC 4.1.2

<sup>22</sup> Exhibit B-25, BCUC 4.2.6

<sup>23</sup> Transcript Volume 8, page 457

<sup>24</sup> Exhibit B-25, BCUC 4.6.4

<sup>25</sup> Exhibit B-25, CEC 4.190.1

in rates if they are able to change the revenue requirements in fiscal 2020 and future years.<sup>26</sup>

48. The CEC agrees that permanent long-term revenue requirement reductions are needed to support a permanent rate freeze.
49. In response to BCUC 4.1.3 BC Hydro provides its forecast for the Rate Smoothing Regulatory Account under 2 scenarios; both of which provide for a zero balance in 2024.
50. Scenario 1 (Table 1) contemplates an offset of the 0% rate increase by changes to revenues and/or costs in future years and no other changes to revenue requirements from the proposed comprehensive review or refreshed plan for rates (ie. Impact occurs only in F2019).

Table 1

Rate Smoothing Regulatory Account Balance (\$ million)	F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024
Without F2019 rate freeze	497	783	1,083	1,491	1,589	1,286	733	0
With F2019 rate freeze – Scenario 1	497	783	1,225	1,625	1,704	1,370	797	0

51. Scenario 2 (Table 2) contemplates no offset of the 0% rate increase by changes in revenues and/or costs in future years and no other changes to revenue requirements from the proposed comprehensive review or refreshed plan for rates (ie. Impact occurs through the remainder of the 10 Year Rates Plan).

Table 2

Rate Smoothing Regulatory Account Balance (\$ million)	F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024
Without F2019 rate freeze	497	783	1,083	1,491	1,589	1,286	733	0
With F2019 rate freeze – Scenario 2	497	783	1,225	1,726	1,865	1,537	915	0

52. BC Hydro continues to consider that the balance in the Rate Smoothing Regulatory account must be recovered by the end of fiscal 2024 and points out that the 2013 10 Year Rates Plan is built on the basis of average rate increases of 2.6% in the last five years of the plan from fiscal 2020 to 2024 including the full recovery of the balance in the Rate Smoothing Regulatory Account.<sup>27</sup> BC Hydro states that it is on track to meet the objectives of the 2013 10 Year Rates Plan including fully recovering the balance in the

<sup>26</sup> Exhibit B-25, BCUC 1.4.1

<sup>27</sup> Exhibit B-25, BCUC 4.1.4

RSRA by the end of fiscal 2024. They state that this outcome is unaffected by the rate freeze.<sup>28</sup>

53. BC Hydro does not consider that the rate freeze in fiscal 2019 would materially impact customers from an intergenerational perspective and notes that the Commission retains the authority to set the recovery period for the RSRA and that the recovery period remains unchanged.<sup>29</sup>
54. The CEC does not find sufficient evidence on the record to support BC Hydro's contention that it can permanently absorb \$140 million of reductions in its revenue requirements.
55. As noted in CEC Final Submissions of June 13, 2017, the Rate Smoothing Regulatory Account was established in 2015 to defer those portions of the allowed revenue requirement in one year that were not able to be recovered in rates in that particular fiscal year.<sup>30</sup> BC Hydro has already proposed overspending against the rate caps imposed by the former government that have significantly reduced the rate increases that would otherwise have occurred. There is no evidence in this proceeding that BC Hydro has identified the changes required to avoid proposing overspending or under-collecting of revenue again in the future.
56. In Exhibit B-9, BC Hydro provided the estimated annual rate increases that would have accrued without the rate caps in place. The cumulative rate increases without rate caps would have reached 17.8% by F2019.<sup>31</sup> BC Hydro confirms that it would be accurate to say that the combined effect of the F2017 and F2018 rate caps and the proposed F2019 rate freeze is to produce F2019 rates that are approximately 10% lower than they would have been in the absence of the rate smoothing account.<sup>32</sup>
57. As noted in the Tables above the RSRA is at approximately \$0.5 billion as of 2017, and is expected to grow to \$1.865 billion by F2021 assuming no offset by changes in revenues/costs.
58. In its Final Submissions of June 13, 2017, the CEC submitted that to the extent that the BC Hydro load forecasts are over forecast and anticipate revenues which do not materialize BC Hydro deferral accounts would have greater than anticipated additions. The CEC pointed out that BC Hydro's target of a zero balance in the RSRA by 2024 may well require rates greater than BC Hydro is forecasting based on its load forecasts.

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<sup>28</sup> BC Hydro Final Argument December 2017, page 12

<sup>29</sup> Exhibit B-25, BCUC 4.2.1

<sup>30</sup> CEC Final Argument June 2017 page 149-150

<sup>31</sup> CEC Final Submissions June 2017, page 9

<sup>32</sup> Exhibit B-25, BCSEA 4.4.2

59. The CEC submits that it is an issue of intergenerational inequity if BC Hydro's expenditures cannot be managed to constrain the ongoing increases in the RSRA and move the authority to fairer timing in its collection of costs. The CEC reiterates its comments made in the November 23, 2017 Procedural Conference, that deferability does not equate to affordability.<sup>33</sup>
60. BC Hydro states that it will apply for a recovery mechanism for the RSRA in subsequent revenue requirements applications. They point out that the Commission will at that time be able to determine what is required to meet its requirement to allow the regulatory accounts to be cleared from time to time and within a reasonable period 'having regard to the impacts of the rate freeze as well as the offsetting impacts of any announced initiatives emerging from the comprehensive review and refreshed rates plan.'<sup>34</sup>
61. The CEC submits that this is further evidence that BC Hydro does not have a clear understanding of how it will make the 3% rate freeze permanent, and supports a position that the Commission should treat the rate freeze as temporary until such time as BC Hydro can provide its plan for a permanent reduction.
62. The CEC notes that effectively there is no scheduled time in which BC Hydro will apply for a recovery mechanism and submits that this vagueness could present a significant challenge for the Commission to the extent that the RSRA accumulates over this period.
63. The CEC recommends that the Commission direct BC Hydro to file a plan for the recovery of the RSRA within six months. The CEC considers that such a direction will allow BC Hydro to commence its 'comprehensive review' and should have some understanding of the potential for major cost reductions.

## **E. Comprehensive Review of BC Hydro and Refreshed Rate Plan**

64. BC Hydro states that the Comprehensive Review is likely to begin in 2018<sup>35</sup> and that the 'comprehensive review of BC Hydro and refreshed rate plan for rates are expected to inform revenue requirement applications for subsequent fiscal years beginning in fiscal 2020. They also state that 'since the scope and process for the comprehensive review are not yet known, BC Hydro cannot estimate when in fiscal 2019 the comprehensive review will be completed.'<sup>36</sup> BC Hydro is not able to provide further details as to the timing of the comprehensive review or the refreshed plan for rates, or how those timelines may interact.<sup>37</sup>

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<sup>33</sup> November 23, 2017 Procedural Conference page 417-418

<sup>34</sup> BC Hydro Final Submission December 2017, page 13

<sup>35</sup> Exhibit B-25, CEC 4.191.3

<sup>36</sup> Exhibit B-25, CEC 4.191.5

<sup>37</sup> Exhibit B-25, NIARG 4.30.1

65. The CEC submits that this is further evidence that the comprehensive review and rate plans provide insufficient definition to provide regulatory justification for pursuing a permanent rate freeze in the absence of other important factors.
66. In its November 8, 2017 announcement regarding the rate freeze, government stated that:
- “The rate freeze will provide government the time to undertake a comprehensive review of BC Hydro. That review will identify changes and cost savings to keep rates low while ensuring BC Hydro has the resources it needs to continue to provide clean, safe and reliable electricity. Details of the scope and process for the review will be developed once government has made a final decision on Site C.”<sup>38</sup>
- After completing a comprehensive review of BC Hydro, any cost and revenue adjustments identified will be reflected in rates starting in April 2019.”<sup>39</sup>
67. The CEC notes that to the extent BC Hydro forecasts review-related costs for years after fiscal 2019, they would include them in their next revenue requirement.<sup>40</sup>
68. The CEC submits that there is no reason why BC Hydro has not already initiated portions of its comprehensive review, and should have in any case been able to initiate its review immediately. Not only has the government issued a decision about Site C, but BC Hydro has been aware of its intention to conduct a comprehensive review for some period of time.
69. The CEC submits that BC Hydro’s propensity to defer issues to a government agenda and timing should, as rate-setting returns to the purview of the Commission, move to a situation where the Commission sets the timetable for BC Hydro.
70. The CEC submits that regardless of the Minister’s Mandate letter it would be prudent for BC Hydro to be conducting its own internal comprehensive review on its own initiative as a matter of best utility management practices.
71. The CEC submits that it would be appropriate for the Commission to require BC Hydro to commence the comprehensive review immediately and provide reports at the 3 and 6 month marks identifying at a high level the likely outcomes for each.
72. The CEC recommends that if the Commission approves the requested rate freeze, it should do so only on an interim basis subject to the following caveats:

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<sup>38</sup> Exhibit B-25, BCOAPO 4.145.1

<sup>39</sup> Exhibit B-25, BCOAPO 4.145.1

<sup>40</sup> Exhibit B-25, CEC 4.191.8 and 4.198.8

- (a) That BC Hydro provide an update of its comprehensive review within 3 months and again at 6 months from the date of the Decision with high level estimates of savings that can be achieved by 2020 and through to 2024 and a conceptual view of the rates that would be included in the ‘refreshed rate plan’;
- (b) That BC Hydro identify the timing for the completion of the ‘refreshed rate plan’ within 3 months from the date of the Decision;
- (c) That BC Hydro file a proposed recovery mechanism for the RSRA within 6 months of the date of the Decision; and
- (d) That BC Hydro amend its target to include low rates for all commercial rate classes.

## **F. Definition of ‘Low’ Electricity Rates**

- 73. As noted above, BC Hydro states that the refreshed rate plan will be developed to ‘keep rates low and predictable over the long term’.<sup>41</sup>
- 74. The CEC inquired as to BC Hydro’s interpretation of ‘low electricity rates in CEC 4.190.3. BC Hydro points to the Clean Energy Act objective of competitiveness with other North American public utilities, and BC Hydro’s service plan objective, which is to ensure the authority’s rates are among the most affordable in North America.
- 75. BC Hydro confirms that ‘low’ electricity rates would be expected to apply to all rate classes.<sup>42</sup>
- 76. BC Hydro measures its competitiveness/affordability through the Hydro Quebec Comparison of Electricity Prices in Major North American Cities Report (Hydro Quebec Report or Report). The Report addresses four customer categories including residential, small, medium and large power.
- 77. BC Hydro states that its Competitive Rates performance metric target in the Fiscal 2017/2018 to Fiscal 2019/2020 Service Plan is to be in the first quartile with regard to residential rates.
- 78. They state that it also ‘strives to be in the first quartile with all customer categories including small, medium and large power customers.

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<sup>41</sup> Exhibit B-25, BCSEA 4.1.4

<sup>42</sup> Exhibit B-25, CEC 4.190.4

79. BC Hydro states that:

Based on the data from the Hydro-Quebec survey, BC Hydro’s monthly bills and average prices for all customer segments are within the first (i.e., lowest rate) quartile of utilities for the residential and medium power categories, with low rates providing a competitive advantage to these customer segments in BC Hydro’s service area. BC Hydro’s small power category has moved from the first quartile to the second quartile of utilities for the first time. BC Hydro’s large power category ranking is unchanged from last year and remains in the second quartile.<sup>43</sup>

80. The Hydro Quebec Report provides the following rankings for BC Hydro out of 22 utilities.

Rate Class & Usage	Ranking at April 1, 2017
<b>Residential</b>	
Residential - 625 kWh	3
Residential - 750 kWh	3
Residential - 1,000 kWh	5
Residential - 2,000 kWh	9
Residential - 3,000 kWh	9
<b>Small Power</b>	
Small Power - 750 kWh/6 kW	7
Small Power - 2,000 kWh/14 kW	7
Small Power - 10,000 kWh/40 kW	7
Small Power - 14,000 kWh/100 kW	5
Small Power - 25,000 kWh/100 kW	8
<b>Medium Power</b>	
Medium Power - 100,000 kWh/500 kW	4
Medium Power - 200,000 kWh/500 kW	5
Medium Power - 200,000 kWh/1,000 kW	5
Medium Power - 400,000 kWh/1,000 kW	5
Medium Power - 1,170,000 kWh/2,500 kW	6
<b>Large Power</b>	
Large Power - 2,340 MWh/5,000 kW/25 kV	6
Large Power - 3,060 MWh/5,000 kW/25 kV	6
Large Power - 5,760 MWh/10,000 kW/120 kV	5
Large Power - 17,520 MWh/30,000 kW/120 kV	7
Large Power - 23,400 MWh/50,000 kW/120 kV	8
Large Power - 30,600 MWh/50,000 kW /120 kV	8

<sup>43</sup> Exhibit B-25, CEC 4.190.3, Attachment page 6 of 21

<sup>44</sup> Exhibit B-25, CEC 4.190.3, Attachment page 7 of 21

81. The CEC is concerned that BC Hydro has not established a first quartile target for small, medium and large power customers in its Competitive Rates performance metric target in the Fiscal 2017/2018 to Fiscal 2019/2020 Service Plan as it has done for the residential class, and further that 2 of the classes (small power and large power) are not in the first quartile.
82. The CEC submits that it is not appropriate for BC Hydro to discriminate between rate classes by establishing specific affordability targets for the residential rate class, and not to establishing similar affordability targets for commercial and industrial classes.

### **G. Cost Effective Utility Standard and Affordable Bills**

83. The CEC notes that there has been an emphasis on cost reductions to meet rate targets in this proceeding.
84. The CEC submits that the appropriate standard for management of BC Hydro should be cost-effective utility standards. Cost reductions for the sake of meeting particular targets may not be sound and cost-effective and have the potential to contribute to intergenerational inequity.
85. The CEC notes that there has also been considerable focus on BC Hydro rates, rate caps, rate smoothing and rate comparisons in this proceeding.
86. While the CEC is obviously concerned with rates and rate impacts for ratepayers, the CEC submits that the more appropriate metric, from a customer perspective, is the increase in bills and bill impacts. Ultimately customers are seeking affordable bills.
87. This is increasingly important as we continue to see increasing emphasis on conservation and efficiency investment which may increase rates but contribute to lowering bills.
88. The CEC recommends that the Commission request BC Hydro to define its participation in any comprehensive review in terms of cost-effective utility standards and customer bill impacts.

### **H. Conclusion**

89. The CEC agrees that the Minister's Mandate letter provides significant guidance for the Commission with regard to the proposed rate freeze, but does not find that there is adequate regulatory justification for the approval of permanent rates.
90. The CEC accepts that the comprehensive review and proposed refreshed rate plan could provide an attractive option for lowering costs and developing a plan for maintaining low and predictable rates. However, the CEC finds the evidence surrounding these elements of the Minister's letter is vague and provides little certainty with respect to their ability to

avoid contributing to a larger concern with regard to the size of the Rate Smoothing Regulatory Account.

91. The Commission has the jurisdiction to approve interim rates, and the CEC submits that this is a reasonable option for the Commission to adopt to allow for a temporary rate freeze while the authority develops a better understanding of its ability to manage its costs and deferral accounts.
92. The CEC recommend that if the Commission adopts a rate freeze it does so using interim rates with the caveats that:
  - That BC Hydro provide an update of its comprehensive review within 3 months and again at 6 months from the date of the Decision with high level estimates of savings that can be achieved by 2020 and through to 2024 and a conceptual view of the rates that would be included in the ‘refreshed rate plan’;
  - That BC Hydro identify the timing for the completion of the ‘refreshed rate plan’ within 3 months from the date of the Decision;
  - That BC Hydro file a proposed recovery mechanism for the RSRA within 6 months of the date of the Decision; and
  - That BC amend its target to include low rates for all commercial rate classes.
93. The CEC recommends that the Commission request BC Hydro to define its participation in any comprehensive review in terms of cost-effective utility standards and customer bill impacts.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

*David Craig*

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David Craig, Consultant for the Commercial Energy Consumers Association of British Columbia



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Christopher P. Weafer, Counsel for the Commercial Energy Consumers Association of British Columbia