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May 24, 2018

FILED ELECTRONICALLY

British Columbia Utilities Commission
Suite 410, 900 Howe Street
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Attention: Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

Project No. 1598933
British Columbia Utilities Commission
British Columbia Hydro and Power Authority
Waneta 2017 Transaction Application

Please find enclosed, for filing, BC Hydro's Reply Argument, further to Commission Order No. G-70-18.

Yours very truly,

LAWSON LUNDELL LLP

A handwritten signature in blue ink, appearing to read "Jeff Christian", written over a light blue circular stamp.

Jeff Christian

JC/beg
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**BRITISH COLUMBIA UTILITIES
COMMISSION**

Waneta 2017 Transaction

**BC Hydro
Reply Argument**

May 24, 2018

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PART I: OVERVIEW

1. This is BC Hydro's reply argument with respect to the orders it seeks in regard to the Waneta 2017 Transaction.¹
2. On May 3, 2018, BC Hydro submitted its final argument in this proceeding. On May 17 and 18, 2018, seven interveners filed final argument as follows:
 - Clean Energy Association of British Columbia (**CEABC**);
 - BC Sustainable Energy Association and Sierra Club BC (**BCSEA**);
 - Commercial Energy Consumers of British Columbia (**CEC**);
 - BC Old Age Pensioners Association *et al* (**BCOAPO**);
 - Movement of United Professionals (**MoveUp**);
 - United Steelworkers; and
 - FortisBC Inc. (**FortisBC**)
3. With the exception of the CEABC, all interveners support the orders BC Hydro seeks in regard to the Waneta 2017 Transaction.
4. Four of the interveners that support the transaction represent ratepayer interests or offer their supporting arguments in their capacity as customers of BC Hydro,² while the other two supporting interveners represent related public interests.³ The CEABC alone represents a commercial interest with no corollary public interest perspective on the transaction. Accordingly, and all else being equal, its arguments can be given less weight than those of the other interveners and in particular those that represent or argue in their capacity as BC Hydro customers.⁴

¹ In this reply argument, defined terms and acronyms have the same meaning as in the Application, Exhibit B-1, unless stated otherwise.

² BCSEA, CEC, BCOAPO and FortisBC.

³ MoveUp and United Steelworkers both represent worker/employee interests.

⁴ Bearing in mind that ratepayer interests are the core consideration the Commission must have regard to in assessing a UCA section 44.2 application.

5. This reply argument focuses on the CEABC final argument. However, much of what BC Hydro might have said in reply to the CEABC has already been said in BC Hydro's final argument. BC Hydro has generally avoided repeating those submissions here. Where BC Hydro has not responded directly to a CEABC submission, this should not be taken as agreement with the submission.
6. BC Hydro also offers a few comments in reply to a few submissions made by the CEC in its final argument.
7. In its final argument, BC Hydro proposed that the orders it seeks be issued on or before July 18, 2018. That proposed date was not opposed by any intervener. Moreover, none of the supporting interveners have suggested that the Commission issue conditional orders, or proposed that the Commission issue additional orders.⁵ If the Commission finds the transaction cost-effective and in the public interest, consistent with the views of those interveners, it ought to issue the requested orders, and no others, on or before July 18 to ensure the transaction can complete by the August 1, 2018 deadline.

⁵ At paragraphs 153 and 167-183 of its final argument, the CEC offers comments on BC Hydro's future load-resource balance, demand-side management initiatives, load forecasting and so on. BC Hydro understands that the CEC's observations are offered to provide context, and are not requests for determinative Commission conclusions or orders. Such orders would inevitably raise the question, between Teck and BC Hydro, whether the regulatory approval condition of closing has been satisfied.

PART II: REPLY TO CEABC**A. Introduction**

8. The CEABC argument is notable in several respects.
9. First is that the CEABC has not engaged with BC Hydro's argument or evidence in a meaningful way. Instead, its argument consistently ignores or mischaracterizes BC Hydro's argument and evidence. Some examples include the following:
 - (a) The CEABC does not frame its argument in terms of cost-effectiveness or public interest, the two measures BC Hydro has argued are the proper basis for the Commission's assessment of the transaction. Indeed, the CEABC offers no measure by which the Commission might assess the transaction.
 - (b) The CEABC repeatedly states that all the benefits of the transaction will arise after the Lease Period.⁶ The CEABC persists in ignoring the lease revenues and associated benefits that will accrue to BC Hydro's ratepayers during the Lease Period.
10. Further, and as observed by other interveners in regard to the CEABC's submissions, the CEABC "cherry-picks" information to build arguments that are self-serving but ultimately lack internal coherence.⁷ Examples are provided in the sections that follow.

⁶ See for example pages 1 and 12 of the CEABC argument.

⁷ See for example MoveUp's argument at page 4.

11. Finally, the CEABC argument does not rely in any meaningful way on its own evidence (including CEABC's IR responses). That evidence is set out in Exhibits C6-6 and C6-7, which are referred to only twice:
- (a) First, in support of the proposition that LRMCs have been declining in recent years - a point that is not in dispute.⁸
 - (b) Second, in support of an LRMC of \$45/MWh - but the cited IR response⁹ does not state an LRMC of \$45/MWh. Instead the \$45/MWh is derived in footnote 18 of the CEABC argument, with only a cursory explanation and no reconciliation to the CEABC's contrary evidence in the IR response.¹⁰

B. Assumed Cost of Financing

12. The CEABC argues that the transaction should be analysed on the basis that BC Hydro's cost of financing the transaction will be 7%. BC Hydro's submissions on this topic are at paragraphs 56, 62 and 102 – 110 of its final argument and BC Hydro relies on those submissions in reply.
13. The CEABC argues at length that higher assumed financing costs would yield a transaction with a lower apparent value. This point is not in dispute (although, to be clear, BC Hydro does not agree with the results of CEABC's valuation provided for in its argument).
14. In addressing BC Hydro's ratepayer impact analysis the CEABC persistently ignores its purpose. The ratepayer impact analysis is not employed to determine whether from an investment perspective the transaction is cost-effective (which is the purpose of the NPV analysis). Its purpose is to assess the incremental effect of the transaction on BC Hydro's revenue requirements and thus high-lite the effect it will have on BC Hydro's rates. The test is only meaningful if it considers

⁸ Footnotes 14 and 15 of the CEABC argument.

⁹ Footnote 18 to the CEABC argument refers to the CEABC's response to BCUC IR 1.1, pages 3-4, Exhibit C6-7.

¹⁰ Moreover it is uncertain at best whether the author of the CEABC's evidence is qualified to provide quantitative or analytical evidence generally, let alone admissible opinion evidence on the cost of future generation resources in BC. Submissions of counsel on the point clearly have no evidentiary value.

the actual incremental financing costs that will be borne by ratepayers. Because BC Hydro will not issue equity, will not earn a return on the investment,¹¹ and will only be issuing incremental debt in consequence of the transaction, it is only the near-term interest rates that are relevant to the ratepayer impact analysis¹² - a point consistent with the views of all interveners who have commented on the issue.¹³

15. In considering BC Hydro's NPV analysis, the CEABC returns again to the notion that an 11.84% rate of return on equity is the appropriate cost of equity to be used in the determination of a blended debt-equity cost of financing. That figure only had relevance when the Commission was required, in law, to use it for the purpose of setting BC Hydro's revenue requirements. As explained at paragraph 108 of BC Hydro's final argument, the choice of 11.84% and a less "cherry-picking" approach to a debt-equity ratio that had the same temporal and legal currency would have yielded an assumed cost of financing *lower* than what BC Hydro assumed.¹⁴
16. At page 5 of its argument the CEABC says that there "is no precedent for BC Hydro to switch from all of its previous practice and suddenly do its analysis using an after-tax [rate of] return on equity". The better view is that there is no precedent and indeed no justification for BC Hydro to use a rate of return on equity that was once but is no longer embedded in an enactment.

C. LRMC

17. The CEABC's argument claims that BC Hydro's analysis erroneously relies on too-high an LRMC for evaluating the value of the transaction after the Lease Period. In doing so, the CEABC fails to grasp the distinction between the Range of Value Approach and the LRB Gap Approach, described by BC Hydro at

¹¹ BC Hydro's allowed net income is set at \$712 million for F2019 and all future periods and is unrelated to rate base.

¹² Future interest rates will have a bearing on the cost of incremental capital - but the effects are small and already accounted for: see paragraph 64 of BC Hydro's final argument.

¹³ See BCSEA's argument at paragraphs 56-57; CEC's argument at paragraphs 91-97 and MoveUp's argument at page 4.

¹⁴ 5.58% versus 6%.

paragraph 91 of its final argument; alternatively, the CEABC wilfully ignores it. In either case, the Range of Value Approach developed and employed by BC Hydro purposefully diminishes the importance of "picking" the right LRM. This is actually implicit in the CEABC's final argument criticizing BC Hydro's evidence regarding LRM, insofar as it is based on an assumed cost of financing of 7% to draw its conclusion.¹⁵

18. The CEABC argues that an appropriate LRM at the end of the Lease Period is \$45/MWh. As noted above, that figure is not supported by the CEABC's own evidence.

D. Additional Sustaining Capital

19. At page 14 of its argument the CEABC misconstrues BC Hydro's evidence and argument regarding additional sustaining capital. BC Hydro's NPV analysis assumes that BC Hydro will be bearing all the incremental costs associated with increasing from a "good utility practice" to a "leading utility practice" approach, on the basis of a conservative forty-year asset life. It is yet another example of cherry-picking to imply, as the CEABC does in this line of argument, that BC Hydro should have assumed incremental capital for a longer than forty-year life, but not benefits.
20. In its final argument, BC Hydro addressed two specific items the CEABC pointed to in its April 19 submissions and which it cites again in its argument – specifically, the possibility of a \$200 million investment in Waneta to protect against a PMF event, and the possibility of a need to remediate "toxic sediments." BC Hydro provided a response to these issues at paragraphs 116-120 of its final argument and relies on those submissions.
21. As the CEABC admits in regard to both issues, "not much has changed" since the Waneta 2010 proceeding when these issues were raised and dismissed by the Commission. Why the Commission should come to a different conclusion

¹⁵ See discussion at the bottom of page 5 and top of page 6 in the CEABC argument.

today than it did then is not explained and BC Hydro submits that there is no basis for doing so.

E. Dispatchability of Waneta

22. The CEABC argues that Waneta's generation profile is dominated by freshet energy and that as such, Waneta will be a net consumer of shaping resources. BC Hydro provided a response to this issue at paragraphs 121-124 of its final argument and relies on those submissions. In short, under the Waneta 2017 Transaction BC Hydro acquires a resource that has for many years served a major and largely flat industrial load. The issues raised by the CEABC on this topic are illusory.
23. On the same topic, the CEABC argues that the backstop to Teck's CPA rights under section 17 the COA might be subject to Commission approval. That might be the case to the extent BC Hydro's obligations could only be effected through regulated services - but section 17 of the COA imposes no such restriction. It follows that there is no basis to extrapolate the possibility that a Commission approval might be required at some future time into a conclusion that BC Hydro is not getting any value from the transaction.

PART IV: COMMENTS ON CEC SUBMISSIONS

24. At paragraphs 191-202 of its final argument, the CEC offers submissions that are founded on an understanding that BC Hydro failed to include Site C generation in its LRB considerations and the Range of Value Approach employed in the Waneta 2017 Business Case. That understanding is incorrect. BC Hydro's LRB evidence on this record assumes that Site C will be in-service by 2024.¹⁶ In light of this misunderstanding, the Commission should give no consideration to the CEC's submissions at paragraphs 191-202 of its argument.
25. The CEC also seems to misapprehend the import of the Waneta 2017 Business Case. The Waneta 2017 Business Case memorializes the analysis BC Hydro undertook in contemplation of its right to issue a Reply Notice in regard to the Fortis Transaction, and speaks to BC Hydro's thinking as of its issuance date, namely July 26, 2017. In no way has it restricted BC Hydro's consideration of the transaction since then. If there had been any material changes since that date, including, for example, analyses that came out of the IR process in this proceeding or the Commission's conclusions in the Site C Review, BC Hydro would have re-visited the transaction. However, that hasn't proved necessary since all new scenario analyses¹⁷ and the Commission's Site C conclusions have proved immaterial, insofar as they fall within the parameters of the Range of Value Approach employed in the Waneta 2017 Business Case.¹⁸ The CEC's assertion that "BC Hydro does not undertake to assess up to date information" is unfounded and wrong.

¹⁶ See Appendix A to the Waneta 2017 Business Case. A redacted version of the Waneta 2017 Business Case is attached as Appendix N to the Application, Exhibit B-1.

¹⁷ That is, those scenarios based on reasonable assumptions or forecasts as opposed to those based on self-serving guesses.

¹⁸ For example, the Commission Panel's Mid-C Price Forecast is within the range of market price scenarios BC Hydro considered in the Waneta 2017 Business Case: see BC Hydro's response to BCUC IR 2.83.4.3.

PART VI: CONCLUSION

- 26. BC Hydro has demonstrated that the Waneta 2017 Transaction is cost-effective and in the public interest.
- 27. BC Hydro submits that the Commission should approve its requested orders with respect to the Waneta 2017 Transaction, as sought, on or before July 18, 2018.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 24TH DAY OF MAY, 2018



By: _____
Jeff Christian



By: _____
Clara Ferguson