

REQUESTOR NAME: **BC Sustainable Energy Association and Sierra Club BC**

INFORMATION REQUEST ROUND NO: **3**

TO: **British Columbia Hydro and Power Authority**

DATE: **December 1, 2017**

PROJECT NO: **3698869**

APPLICATION NAME: **British Columbia Hydro and Power Authority ~ F2017 to F2019 Revenue Requirements Application**

1.0 Topic: F2019 Rate Freeze Request

Reference: Exhibit B-23

- 1.1 Please explain why BC Hydro did not apply for a F2019 rate freeze immediately after receiving the August 24, 2017 Minister's Mandate Letter.
- 1.2 BC Hydro says the anticipated comprehensive review of BC Hydro and refreshed rates plan are expected to inform revenue requirement applications for subsequent fiscal years beginning in F2020. [Exhibit B-23, p.3] Did BC Hydro consider awaiting the results of this review and rates plan before deciding whether a rate freeze is justified? If not, why not?
- 1.3 Please confirm that BC Hydro is not able to assure the Commission at this time that the outcome of the development of a refreshed rates plan and the completion of another review of BC Hydro will include a reduction in BC Hydro's annual revenue requirement either by \$140 million per year or at all.
- 1.4 Please confirm that it is reasonable to expect that substituting a 0% F2019 rate increase for a 3% F2019 rate increase would result in higher rate increases in future years than would otherwise be required.
- 1.5 What rate increases would be necessary in each of F2020 to F2024 to fully recover the balance of the Rate Smoothing Regulatory Account by the end of F2024 in the event of a 0% rate increase for F2019, all else equal? Assume equal rate increases comparable to the 2.6% target annual rate increases for F2020 to F2024 in the 10 Year Rates Plan.
- 1.6 Under BC Hydro's proposed 0% rate increase for F2019, what is the forecast maximum balance in the RSRA before reductions and in what fiscal year will this occur? How does this compare with the maximum under the 3% F2019 rate increase, i.e., \$1.589 billion in F2021 per Table 7-2, Exhibit B-1-1, p.7-6, pdf p.500?
- 1.7 Does BC Hydro remain committed to fully recovering the balance of the RSRA by the end of F2024? If not, why not? Does BC Hydro interpret the Minister's Mandate Letter as relieving the Province and BC Hydro from their commitment to fully recover the balance of the RSRA by the end of F2024?
- 1.8 BC Hydro says the purpose of the RSRA is to smooth out rate increases. [Exhibit B-1-1, p.7-13, pdf p.507] Confirm that this is the only purpose under the Bonbright principles. Does BC Hydro agree that a 0% rate

increase in F2019, preceded by and followed by annual rate increases, would be inconsistent with the purpose of the RSRA to smooth out rate increases?

- 1.9 Does BC Hydro agree that substituting a 0% F2019 rate increase for a 3% F2019 rate increase would worsen the intergeneration inequity associated with the Rate Smoothing Regulatory Account?
- 1.10 Does BC Hydro agree that substituting a 0% F2019 rate increase for a 3% F2019 rate increase would worsen the sub-optimal price signal (i.e., rates lower than cost of electricity would encourage more use of electricity than is economically efficient) associated with the Rate Smoothing Regulatory Account?
- 1.11 Please confirm that apart from the Minister's Mandate letter there is no regulatory justification for a 0% rate increase for F2019 instead of the previously requested 3% rate increase for F2019. Alternatively, please explain.
- 1.12 Please confirm that a F2019 rate freeze is not a prerequisite for any of the potential mechanisms for reducing BC Hydro's revenue requirement that may be considered in the development of a refreshed rates plan and another review of BC Hydro. Alternatively, please describe any potential method of reducing BC Hydro's revenue requirement that would be precluded by a 3% F2019 rate increase and not by a 0% F2019 rate increase.
- 1.13 Please provide a table showing how the Bonbright principles apply to the requested F2019 rate freeze.
- 1.14 Please specify the exhibit numbers and page references of the evidence and previous argument on which BC Hydro relies, in addition to the Minister's Mandate Letter in Exhibit B-23.

2.0 **Topic: 10 Year Rates Plan**

Reference: Exhibit B-1-1, pp.1-17 to 1-18, pdf pp.45-46

"The final five years of the 2013 10 Year Rates Plan target rate increases of 2.6 per cent in each of fiscal 2020 to fiscal 2024, subject to British Columbia Utilities Commission review and approval. The 2013 10 Year Rates Plan also includes fully recovering the balance in the Rate Smoothing Regulatory Account at the end of fiscal 2024." [underline added]

- 2.1 Confirm that the 10 Year Rates Plan concept of full recovery of the balance in the RSRA by the end of F2024 is predicated on a 3% F2019 rate increase followed by target rate increases of 2.6% in each of F2020 to F2024.
- 2.2 Confirm that, all else equal, a F2019 rate increase of 0% instead of 3% would make it impossible for implementation of target rate increases of

2.6% in each of F2020 to F2024 to result in full recovery of the balance of the RSRA by the end of F2024.

- 2.3 Confirm that a F2019 rate increase of 0% instead of 3% would reduce BC Hydro's revenue by three percentage points in each of F2020 to F2024, and thereafter, all else equal.

3.0 Topic: Increased transfers to RSRA
Reference: Exhibit B-23, p.3; Exhibit B-1-1, Table 1-8, Fiscal 2017 to Fiscal 2019 Amounts Transferred to the Rate Smoothing Regulatory Account, pdf page 74

"The amount transferred to the account in fiscal 2019 is expected to change from the \$299.4 million³ included in the Application. The final amount to be transferred will be calculated as part of the compliance filing and will take into account adjustments committed to be made through the Revenue Requirements Application proceeding, any adjustments resulting from the Commission's order on the Application, as well as revenues that were expected to be received in fiscal 2019 as a result of the 3 per cent rate increase in the Application. The impact of the latter is expected to increase the transfer to the Rate Smoothing Regulatory Account in fiscal 2019 by approximately \$140 million." [Exhibit B-23, p.3, underlined added]

- 3.1 Confirm that, all else equal, a 0% rate increase for F2019 would mean that the rate increase for F2020 would have to be roughly 5.6% (3% + 2.6% = 5.6% without compounding) in order to recover a similar amount of revenue in F2020 as would occur had there been a 3% increase in F2019 followed by a 2.6% increase in F2020. Alternatively, please explain.
- 3.2 Please confirm that a 0% rate increase for F2019 would be expected to increase the transfer to the RSRA by approximately \$140 million not only in F2019 but in every year thereafter until such time as the difference between the annual revenue requirement and the annual revenue falls below \$140 million. Alternatively please explain.
- 3.3 Please confirm that, all else equal, a 0% rate increase for F2019 would be expected to increase the transfer to the RSRA by approximately \$140 million in each year of the 10 Year Rates Plan from F2019 to F2024, so that the total increase in transfer to the RSRA would be approximately \$840 million. Alternatively please explain.
- 3.4 Please provide a revised and updated Table 1-8, showing:
- 3.4.1 the original F2019 column,
 - 3.4.2 adding a F2019 with rate freeze column,
 - 3.4.3 adding a row showing the balance in the RSRA, and
 - 3.4.4 either the original figures or revised (e.g., actuals) figures at BC Hydro's option.

4.0 Topic: Cumulative rate increases

Reference: Exhibit B-9, BCH response to BCUC IR 1.1.1, pdf page 3

In response to Commission IR 1.1.1, BC Hydro says:

“A comparison of fiscal 2019 rate increases with or without the fiscal 2017 to fiscal 2019 rate caps prescribed by the 2013 10 Year Rates Plan must be done on a cumulative basis compared to fiscal 2016 rates.

Please see the table below for a comparison of annual and cumulative rate increases with and without rate caps.

	F2017 (%)	F2018 (%)	F2019 (%)
Annual rate increases – with rate caps	4.0	3.5	3.0
Cumulative rate increases – with rate caps	4.0	7.6	10.9
Estimated Annual rate increases – without rate caps	8.9	5.0	3.0
Estimated Cumulative rate increases – without rate caps	8.9	14.3	17.8

As shown in the table above, without rate caps, on a cumulative basis, BC Hydro estimates that rates in fiscal 2019 would need to be approximately 17.8 per cent higher than fiscal 2016 rates in order to generate sufficient revenue to require no transfers to the Rate Smoothing Regulatory Account. With rate caps, on a cumulative basis, fiscal 2019 rates will be 10.9 per cent higher than fiscal 2016 rates. The difference of 6.9 per cent (17.8 per cent less 10.9 per cent), multiplied by the revenue subject to rate increase in fiscal 2019 of \$4,362.5 million (Appendix A, Schedule 1.0, line 28) results in a \$299.4 million transfer (this result is not exact due to rounding of the 6.9 per cent) to the Rate Smoothing Regulatory Account.”

- 4.1 Please provide a version of the table in Exhibit B-9, BCUC IR 1.1.1 that adds a column showing a 0% rate increase in F2019.
- 4.2 Would it 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?

5.0 Topic: Full recovery of RSRA

Reference: Exhibit B-1-1, p.1-18, pdf p.47

“The targets in the latter years of the 2013 10 Year Rates Plan and the requirement to recover the Rate Smoothing Regulatory Account balance by fiscal 2024 have direct implications for the current Revenue Requirements Application. Any transfers to the Rate Smoothing Regulatory Account over this test period will be recovered over the remaining years of the 2013 10 Year Rates Plan.”[underline added]

- 5.1 Is “the requirement to recover the Rate Smoothing Regulatory Account balance by fiscal 2024” still in place?

5.2 Does BC Hydro continue to commit that “Any transfers to the Rate Smoothing Regulatory Account over this test period will be recovered over the remaining years of the 2013 10 Year Rates Plan”?

6.0 Topic: Deferral and regulatory account balances
Reference: Exhibit B-1-1, Table 7-1, p.7-4, pdf p.498

Table 7-1 Summary of Deferral and Regulatory Account Balances, Fiscal 2015 to Fiscal 2016 Actual and Fiscal 2017 to Fiscal 2019 Forecast

\$-Million	F2015 Actual	F2016 Actual	F2017 Forecast	F2018 Forecast	F2019 Forecast
Opening Balance	4,699.5	5,434.4	5,908.3	5,684.7	5,894.2
Additions	799.1	796.6	269.8	258.2	174.4
Interest	67.2	72.5	76.1	68.4	60.2
Recoveries/Other	(131.4)	(395.2)	(569.5)	(117.1)	(122.7)
Net change	734.9	473.9	(223.6)	209.5	111.9
Closing Balance	5,434.4	5,908.3	5,684.7	5,894.2	6,006.1

6.1 Please provide an updated version of Table 7-1 and add a column showing F2019 Forecast on the assumption of a 0% rate increase for F2019.

7.0 Topic: RSRA balance forecast
Reference: Exhibit B-1-1, Table 7-2, Regulatory Account Balances - Fiscal 2015 to Fiscal 2016 Actual, Forecast Fiscal 2017 to Fiscal 2024 (\$ million), p.7-6, pdf p.500

	F2015 Actual	F2016 Actual	F2017 Forecast	F2018 Forecast	F2019 Forecast	F2020 Forecast	F2021 Forecast	F2022 Forecast	F2023 Forecast	F2024 Forecast
Rate Smoothing Accounts										
27 Rate Smoothing	166	287	497	783	1,083	1,491	1,589	1,286	733	0
Total	166	287	497	783	1,083	1,491	1,589	1,286	733	0

7.1 Please provide a version of Line 27 of Table 7-2 showing (a) the original Rate Smoothing RA balances with a 3% F2019 rate increase, with updates if material, and (b) revised RSRA balances assuming a 0% F2019 rate increase and extended to future years until the balance reaches zero.

8.0 Topic:
Reference: Exhibit B-

8.1

9.0 Topic:
Reference: Exhibit B-

9.1