

Fred James

Chief Regulatory Officer

Phone: 604-623-4046

Fax: 604-623-4407

bchydroregulatorygroup@bchydro.com

March 26, 2018

Mr. Patrick Wruck
Commission Secretary and Manager
Regulatory Support
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

**RE: Project No. 1598933
British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
Waneta 2017 Transaction**

BC Hydro writes to provide a revision to the attachment to one public IR response; and supplemental responses to two public IR responses.

Exhibit B-8-5	Revision to Round 1 attachment (BCUC IR 1.45.5 Attachment 1)
Exhibit B-20-2	Supplemental responses to Round 2 IRs (CEABC IR 2.23.2 and Gabana IR 2.10.0)

BC Hydro is submitting the most recent version of the Canal Plant Agreement (**CPA**), dated November 15, 2011, as the revised attachment to its response to BCUC IR 1.45.5. The CPA submitted in the original response, filed as part of Exhibit B-8-2, is dated February 15, 2010.

The following supplemental IR responses were originally filed as part of Exhibit B-20-1:

- In a follow up clarification question to BC Hydro's response to CEABC IR 2.23.2, CEABC has asked for further information about the use of pre- and after-tax rate of return on equity. Although it is BC Hydro's opinion that it was fully responsive to this IR, it provides a supplemental response in light of the negligible burden and effect on the hearing schedule; and
- Further to the Commission's March 23, 2018 letter (Exhibit A-20), BC Hydro provides a more fulsome response to Gabana IR 2.10.0.

Consistent with previous practice, BC Hydro requests that any concerns regarding the adequacy of the IR responses, confidentially concerns, or other issues, be addressed to Jeff Christian at 604-631-9115 or by email at jchristian@lawsonlundell.com.

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For further information, please contact Geoff Higgins at 604-623-4121 or by email at bchydroregulatorygroup@bchydro.com.

Yours sincerely,



Fred James
Chief Regulatory Officer

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Enclosure

Clean Energy Association of B.C. Information Request No. 2.23.2 Dated: February 22, 2018 British Columbia Hydro & Power Authority SUPPLEMENTAL Response issued March 26, 2018	Page 1 of 2
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23.0 Reference: Exhibit B-1, Application (PDF page 560 of 639), Appendix N, Business Case, section 5.2 (page 46 of 90), Net Present Value of Revenue Requirements

On page 46 of the Business Case, BC Hydro states:

“In cases where BC Hydro’s financing rate is equivalent to the discount rate applied to the analysis, these two cost/benefit streams will result in approximately the same present value result. However, recent changes made to the calculation of BC Hydro’s net income result in these two methods providing divergent results. The main change was as a de -coupling of the link between BC Hydro’s return on equity and its asset base:

- Previously when BC Hydro invested capital and added to its asset base, a portion of this asset base would be “deemed” to be equity and earn a regulated rate of return. This is despite the true financing of the investment being fully debt - based through Government borrowings.
- Under the 10-year Rates Plan, BC Hydro’s return on equity is fixed and no additional return is earned upon capital investment.
- The effect of this change is that the financing of new investments is effectively done at the cost of debt from a ratepayer perspective and does not include a return on equity component.”

2.23.2 Why, in the calculation of the 6% WACC, is the equity included at a cost of 8.75% rather than the 11.84% authorized by the BCUC?

ORIGINAL RESPONSE:

Please refer to BC Hydro’s response to BCUC IRs 1.13.2 and 2.82.4.

SUPPLEMENTAL RESPONSE:

In a follow-up clarification question to this response the CEABC has asked for further information about the use of an after-tax rate of return on equity (i.e., 8.75 per cent) versus a pre-tax rate of return on equity (i.e., 11.84 per cent as previously required by Direction No. 7). The previous use of a pre-tax rate of return on equity was dictated by the requirements of the previous (unamended) Direction No. 7. In consequence of its amendment, and the elimination of any causal link between BC Hydro’s revenue requirements and its rate of return on deemed equity, there is no longer a basis to use the 11.84 per cent, regardless of whether it is a pre- or post-tax rate of return. In the absence of a legal requirement,

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the best guidance on the question of pre- versus post- tax comes from the Commission's own decision on the point, namely the establishment of an after-tax rate of return on equity for FortisBC in Commission Order G-129-16. In that decision, no consideration was given to setting a rate of return on equity on a pre-tax basis. BC Hydro expects that the reason for that is as set out in its response to BCUC IR 2.82.4.

Norman Gabana Information Request No. 2.10.0 Dated: February 22, 2018 British Columbia Hydro & Power Authority SUPPLEMENTAL Response issued March 26, 2018	Page 1 of 1
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10.0 Please name all the beneficiaries from the canal plant agreement, and the amount of cash or benefits they derive from their involvement.

ORIGINAL RESPONSE:

The parties to the CPA are:

- BC Hydro and Power Authority;
- FortisBC Inc.;
- Teck Metals Ltd.;
- Brilliant Power Corporation;
- Brilliant Expansion Power Corporation; and
- Waneta Expansion Limited Partnership.

Under recital F of the CPA all parties benefit from coordination: “the parties have agreed to cooperate in the operation of their available storages and generating facilities in British Columbia for the purpose of obtaining optimum generation from BC Hydro’s generation resources and the Plants.”

The benefits of the CPA are shared by providing the Entitlement Parties with a fixed monthly entitlement in exchange for BC Hydro planning the generation operation on the Kootenay and Pend d’Oreille Rivers to maximize the overall value of the generation.

SUPPLEMENTAL RESPONSE:

In a follow-up clarification question to this response Mr. Gabana has asked BC Hydro to identify the specific cash or benefits the Entitlement Parties receive from the CPA. BC Hydro confirms that the Entitlement Parties receive no cash benefits under the CPA. Further BC Hydro is unaware of how the Entitlement Parties value the electricity entitlements they receive and which are described in the original response above.

The monthly entitlement energy and entitlement capacity amounts are as provided in Table 9 of the CPA. Please refer to BC Hydro’s response to BCUC IR 1.45.5 for a copy of the CPA.