

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

QUESTIONS ROUND NO: 1

TO: **BC Hydro and Power Authority**

DATE: **April 24, 2018**

PROJECT NO: **3698877**

APPLICATION NAME: **British Columbia Hydro and Power Authority Review of the Regulatory Oversight of Capital Expenditures and Projects**

1.0 Topic: General

Reference: Exhibit B-3

- 1.1 Please provide a list of the substantive changes between the 2010 Capital Filing Guidelines and the proposed Capital Filing Guidelines.
- 1.2 Please provide an example of an actual (ideally) or hypothetical project or potential project for each of paragraphs 3, 4, 5, and 11 of the proposed Capital Filing Guidelines. If applicable, please indicate how the treatment would be different under the proposed Guidelines compared to the 2010 Guidelines.

2.0 Topic: Capital Expenditures Context

Reference: Exhibit B-3, Figure 2-1 Consolidated Capital Expenditures by Asset Group; Exhibit B-3, page 37

Figure 2-1 shows Consolidated Capital Expenditures by Asset Group from F2015 to F2026 based on the July 2016 BC Hydro 10 Year Capital Forecast Update provided in the F2017-F2019 RRA (Exhibit B-1-1, Appendix G, pdf p.825).

BC Hydro refers to an Updated F2019 to F2028 Capital Forecast, in footnote 1 on page 37 of the Initial Proposal.

- 2.1 Please provide a graph similar to Figure 2-1, showing figures from the Updated F2019 to F2028 Capital Forecast.

3.0 Topic: Review of capex in the context of long-term resource and capital plans

Reference: Exhibit B-3, p.7

“Growth investments meet anticipated customer demand and increase supply-side efficiency. BC Hydro expects to experience load growth over the next 20 years, and significant new investments are required to meet load growth and provide service safely and reliably. The growth in load is driving generation investments as well as the reinforcement of the regional and bulk transmission systems across the province. All planned investments are aligned with the recommendations of the Integrated Resource Plan.” [underline added]

- 3.1 Please discuss whether and how the Commission exercises regulatory oversight of BC Hydro’s long-term capital plan.
- 3.2 Given that BC Hydro’s anticipation of load growth over the next 20 years is a driver of significant new capital investments, to what extent, in BC

Hydro's view, does the Commission's oversight of BC Hydro's capital spending include oversight of BC Hydro's load growth expectations?

- 3.3 Please confirm, or otherwise explain, that the 2010 Capital Filing Guidelines do not take into account the 2010 *Clean Energy Act* and the transfer of approval authority for BC Hydro's long term resource plan from the Commission to the Lieutenant Governor in Council and the exemption of certain projects and programs from Commission review.
- 3.4 The proposed Capital Filing Guidelines do acknowledge exemptions from Commission approval of certain capital expenditures and additions. Please discuss whether and if so how the proposed Capital Filing Guidelines should reflect the transfer of long-term planning authority, in particular regarding the Commission's examination of project need and alternatives (where no exemption applies).
- 3.5 In BC Hydro's view, should the Commission's role in considering BC Hydro's long term resource plan and long term capital plan when the Commission is examining capex need and alternatives be addressed in the proposed Capital Filing Guidelines, or on a proceeding by proceeding basis?
- 3.6 Please explain how BC Hydro's annual 10 Year Capital Plan, or mid-year updates, is (a) provided to the BCUC and (b) made available to the public. In addition to being included in revenue requirements applications that occur from time to time, are the long-term capital plans provided to the Commission on an annual schedule?

4.0 Topic: Public access to annual reports and compliance reports
Reference: Exhibit B-3, section 3.1.3 BC Hydro Does Extensive Compliance Reporting; section 8.1 Annual Report

"Compliance reporting is another mechanism available to the Commission to oversee BC Hydro's capital investments. BC Hydro undertakes compliance reporting and files information on a regular basis to assist in the review of BC Hydro's capital expenditures and projects. Reporting includes BC Hydro's Annual Report and project-specific compliance reports filed on a schedule determined by the applicable Commission order."

- 4.1 Please confirm, or otherwise explain, that the Annual Report referred to here is BC Hydro's annual report to the BCUC, as distinct from BC Hydro's Annual Service Plan Report available on the BC Hydro website at https://www.bchydro.com/about/accountability_reports/financial_reports/annual_reports.html.
- 4.2 Is BC Hydro's Annual Report to the BCUC posted on BC Hydro's website? If so, where? If not, why not?
- 4.3 What is the date of BC Hydro's most recent annual report to the BCUC?
- 4.4 What are the mechanisms for public access to BC Hydro's compliance reports to the Commission?

5.0 Topic: Scope of the proceeding
Reference: Exhibit B-3, 3.3 Commission Review of Adequacy of BC Hydro's Planning and Execution of Projects

BC Hydro described its capital investment planning process and capital project and program delivery in the F2017-F2019 RRA, in support of forecast capital expenditures and additions during the test period.

BC Hydro notes that the Commission Panel in the F2017-F2019 RRA decision (G27-18, pdf p.53) recommended that “the issue of the adequacy of BC Hydro's planning and execution related to large capital projects be explored in [what is now the current proceeding].”

However, BC Hydro states in the Initial Proposal:

“In accordance with the approved scope of this proceeding, BC Hydro has focussed this filing on the regulatory processes by which the Commission oversees BC Hydro's capital expenditures, with the goal of having updated Capital Filing Guidelines approved by the Commission. In this context, BC Hydro's view is that the adequacy of BC Hydro's planning and execution related to large capital projects is properly the subject of review in its revenue requirements applications or major project applications, where it could inform the Commission's determinations on the reasonableness of BC Hydro's capital expenditure or additions forecasts or the prudence of completed projects.” [pdf p.28, underline added]

In addition, BC Hydro says it has changed its capital planning and delivery processes since the filing of the F2017-F2019 RRA. BC Hydro says this will be described in its next RRA expected to be filed in February 2019. BC Hydro says that proceeding will be “another opportunity” for the Commission and participants to review the adequacy of BC Hydro's planning and execution of capital projects. [pdf p.29]

- 5.1 To what extent are BC Hydro's changes to its capital planning and delivery processes since the filing of the F2017-F2019 RRA reflected in the proposed Capital Filing Guidelines?
- 5.2 Is there a likelihood that future changes to BC Hydro's capital planning and delivery processes will require modifications to the Capital Filing Guidelines approved in this proceeding?

6.0 Topic: Legal framework
Reference: Exhibit A-1; A-2; A-4

In Order G-58-16 (Exhibit A-1), the Commission established the current proceeding under section 83 of the UCA as follows:

“NOW THEREFORE pursuant to section 83 of the *Utilities Commission Act* the British Columbia Utilities Commission orders as follows:

1. A proceeding is established to review the regulatory oversight of British Columbia Hydro and Power Authority's (BC Hydro) capital expenditures

and projects. A Commission order establishing the regulatory process and timetable will follow.”

Section 83 of the UCA states:

“Action on complaints

83 If a complaint is made to the commission, the commission has powers to determine whether a hearing or inquiry is to be had, and generally whether any action on its part is or is not to be taken.”

In Order G-86-16 (Exhibit A-4), the Commission determined that the scope of the proceeding would remain as outlined in Appendix B to Order G-63-16 (Exhibit A-2).

- 6.1 What is the legal status of the 2010 Capital Filing Guidelines? Is there a Commission order attaching the 2010 Guidelines?
- 6.2 In BC Hydro’s view, what will be the legal status of the proposed Capital Filing Guidelines if they are approved?

7.0 Topic: General

Reference: Exhibit B-3, Appendix B, Proposed Capital Filing Guidelines

- 7.1 Please confirm, or otherwise explain, that the intention is that the proposed Capital Filing Guidelines would replace the 2010 Capital Filing Guidelines.
- 7.2 Please explain the difference between the types of projects addressed in section 4.2 (Projects Underway Without Prior Commission Approval or Legislative Exemption: Commission Can Assess Need, Alternatives and Implementation) and the types of projects addressed in section 4.4 (Future Projects that do not Trigger a CPCN or Expenditure Schedule: Commission Can Assess Need in Revenue Requirements Proceeding).
- 7.3 For each of sections 4.1, 4.2, 4.3, and 4.4 please confirm the corresponding paragraph in the proposed Guidelines.
 - 7.3.1 Do section 4.2 and 4.4 both correspond to paragraph 5 of the proposed Guidelines?

8.0 Topic: Projects to serve new service areas

Reference: Exhibit B-3, Appendix B; Appendix C

The 2010 Capital Filing Guidelines state in paragraph 1 under heading 3, CPCN and Section 44.2 Expenditure Schedule, Acceptance and subheading 3.1, Background:

“The Commission can require that BC Hydro file for CPCNs in two instances:

- 1. To construct and operate plant or system required to serve new service areas. BC Hydro will file for a CPCN pursuant to subsection 46(1) of the

UCA with respect to BC Hydro plant or system required to serve a new service area (e.g., not part of the existing BC Hydro integrated system). There will be no expenditure threshold trigger for these filings. This instance is not addressed any further in the Guidelines... [pdf p.77, underline added]

- 8.1 Is this provision included in the proposed Capital Filing Guidelines? If so, where?
- 8.1.1 If not, why not? Does BC Hydro remain committed to applying for a CPCN for new plant or system required to serve a new service area regardless of the Major Project Thresholds?
- 8.2 Please explain why the introductory clause in the provision quoted above states “The Commission can require that BC Hydro file for CPCNs in two instances...” Isn’t the structure of section 45 of the UCA such that BC Hydro requires a CPCN for construction of plant or system that is not an extension?
- 9.0 Topic: Proposed Guidelines Paragraph 3**
Reference: Exhibit B-3, Appendix B, Proposed Capital Filing Guidelines, paragraph 3; Exhibit B-3, section 4.1.1
- “Review of Projects in Revenue Requirements Applications**
3. For projects with a CPCN, accepted expenditure schedule, or an exemption and that have capital expenditures or additions in the test period and have not been reviewed in a previous test period, the scope of review in a revenue requirements proceeding may include consideration of the execution of projects. Detailed consideration of BC Hydro’s project execution is best reviewed at project completion when total cost and outcomes are known.” [underline in the original, double underline added]
- 9.1 For projects with a CPCN, an accepted expenditure schedule, or an exemption, and that have capital expenditures or additions in the test period, and that have been reviewed in a previous RRA proceeding, does BC Hydro agree that there should be an opportunity in the subject RRA proceeding for the Commission to review project execution matters that have occurred subsequent to the Commission’s review of project execution in the previous RRA proceeding?
- 9.2 Please confirm, or otherwise explain, that – “Detailed consideration of BC Hydro’s project execution is best reviewed at project completion when total cost and outcomes are known” – is a new provision, not included in the 2010 Capital Filing Guidelines.
- 9.3 Has the Commission supported this approach?
- 9.4 Please address whether the concept that “Detailed consideration of BC Hydro’s project execution is best reviewed at project completion when total cost and outcomes are known” should be determined on a project specific basis rather than being stated as a general rule in the Guidelines.

- 9.5 Is the intention stated more clearly where BC Hydro states on page 24 “A review of the prudence of capital expenditures should generally occur only after the project is complete and in service when final project costs are known” [underline added]?

10.0 Topic: Proposed Guidelines Paragraph 4

Reference: Exhibit B-3, Appendix B, Proposed Capital Filing Guidelines, paragraph 4; Exhibit B-3, section 4.3, Future Projects Meeting Criteria for CPCN or Section 44.2 Proceeding: Avoid Redundant Reviews in Revenue Requirements Proceeding

Paragraph 4 of the proposed Guideline contemplates review of project need and alternatives in the RRA proceeding, albeit for a limited purpose. It states:

“4. For projects subject to a future CPCN or section 44.2 application and that have capital expenditures or additions in the test period and have not been reviewed in a previous test period, the scope of review in a revenue requirements proceeding may include examination of project need and alternatives to the extent reasonably required to test the forecast capital expenditures or additions.” [underline in the original, double underline added]

However, BC Hydro states in Section 4.3:

“This category consists of projects that are not yet underway and meet the requirements for a CPCN or section 44.2 application. BC Hydro’s proposal is to review the project need, alternatives, and forecast costs in the context of a CPCN or section 44.2 application, not in a revenue requirements application. This is what occurs today.” [underline added]

- 10.1 Please confirm, or otherwise explain, that Section 4.3 of the text corresponds to paragraph 4 of the proposed Capital Filing Guidelines.
- 10.2 Is there a difference between Section 4.3 and paragraph 4 in terms of whether the Commission would review project need and alternatives within an RRA proceeding where the project is subject to a future CPCN or Section 44.2 capital expenditure schedule and has not been reviewed in a previous test period?

11.0 Topic: Proposed Guidelines Paragraph 5

Reference: Exhibit B-3, Appendix B, Proposed Capital Filing Guidelines, paragraph 5; Exhibit B-3, section 4.2, Projects Underway Without Prior Commission Approval or Legislative Exemption: Commission Can Assess Need, Alternatives and Implementation

Proposed Capital Filing Guideline paragraph 5 states:

“5. For projects that do not meet the requirements for a CPCN application or have not and will not be the subject of a section 44.2 application, the scope of review in a revenue requirements proceeding may include an examination of project need and alternatives and the reasonableness of

the forecast assuming the project proceeds. Any consideration of project execution will normally await project completion. [underline in the original; double underline added]

Similarly, BC Hydro states the following on page 25:

“BC Hydro is proposing the scope of a revenue requirements proceeding will generally include reviewing capital projects under development that neither meet the requirements for a CPCN application, nor have been the subject of a section 44.2 application. The review may include an assessment of need, alternatives, and cost, but any consideration of project execution will normally await project completion.” [underline added]

However, BC Hydro also states on page 25 that project execution could potentially be reviewable for these projects during an RRA proceeding. In addition, BC Hydro addresses the timing of a prudency review; a topic not mentioned in paragraph 5 of the proposed Guidelines. BC Hydro states:

“Since the project need, alternatives, and justification have not yet been reviewed for this category of projects, the Commission may inquire into these matters in a revenue requirements application. While the execution of the project to date could potentially be reviewable, a review of the prudence of capital expenditures should generally occur only after the project is in service. As described above, waiting until the project is complete to perform this review is fair to both BC Hydro and ratepayers.” [underline added]

The 2010 Capital Filing Guidelines characterize prudency review as an “execution of project” issue.

“There is no difference [between CPCN and expenditure schedule treatment] in the cost recovery protection afforded. In both cases, the need for the project will have been proven if accepted by the BCUC; the subsequent cost recovery issue is a prudency (execution of project) issue.” [Appendix C, p.3 of 5, pdf p.78, underline added]

- 11.1 Please reconcile the statement that “the execution of the project to date could potentially be reviewable” [for these projects in an RRA proceeding] with the wording in paragraph 5 of the proposed Guidelines that “Any consideration of project execution will normally await project completion.”
- 11.2 When BC Hydro uses the term ‘review of project execution’ in the Initial Proposal does this include ‘prudency review’?
- 11.3 Please confirm, or otherwise explain, that BC Hydro addresses the timing of prudency review in the accompanying text but not in the proposed Guidelines. Why?

12.0 Topic: Proposed Guidelines Paragraph 6
Reference: Exhibit B-3, Appendix B, Proposed Capital Filing Guidelines, paragraph 6, pdf p.71

Paragraph 6, and footnote 9, of the proposed Capital Filing Guidelines state:

“6. BC Hydro will include in its revenue requirements applications for all individual projects above a specified materiality limit:⁹...”

⁹ Historically, the materiality limits have been determined through dialogue between BC Hydro and the Commission.” [underline added]

- 12.1 Is this specified materiality limit the \$5 million threshold for capital expenditures listed in Appendix I of the F2017-F2019 RRA?
- 12.2 Please confirm, or otherwise explain, that BC Hydro’s proposal is to leave these materiality limits undefined in the proposed Capital Filing Guidelines.

13.0 Topic: IT Projects, two-phase review
Reference: Exhibit B-3, section 5.4, Information Technology Projects Meeting Criteria for a Major Project Filing

“Based on BC Hydro’s experience with its Supply Chain Applications Project, BC Hydro is proposing to include an option for a two-phase regulatory process for Information Technology projects if appropriate based on the attributes of the particular project.”

“The two-phase process may be appropriate for projects where a significant proportion of project expenditures will be undertaken in the Definition Phase or there is a need for an expeditious transition between the Definition and Implementation Phases. BC Hydro will propose a two-phase process in a section 44.2 application if appropriate given the specific attributes of the project.” [underline added]

- 13.1 Please explain why “a need for an expeditious transition between the Definition and Implementation Phases” is a factor in favour of a two-phase regulatory process?