

**BRITISH COLUMBIA UTILITIES COMMISSION**  
**IN THE MATTER OF THE UTILITIES COMMISSION ACT**  
**R.S.B.C. 1996, CHAPTER 473**

**and**

**RE: British Columbia Hydro and Power Authority**  
**F2017 to F2019 Revenue Requirements Application**  
**Project No. 3698869**

**Victoria, B.C.**  
**June 10, 2016**

---

**Community Input Session**

---

**BEFORE:**

<b>D. Morton,</b>	<b>Chair</b>
<b>K. Keilty,</b>	<b>Commissioner</b>
<b>D. Enns,</b>	<b>Commissioner</b>

**VOLUME 1**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**CAARS**

VICTORIA, B.C.

July 4, 2002

**(PROCEEDINGS COMMENCED 7:00 P.M.)**

CHAIRPERSON: Good evening. I'm Commissioner David Morton and I welcome you today to this community input session. With me today are commissioners Karen Keilty on my right and Doug Enns on my left. We are the Commission panel designated to hear the BC Hydro Revenue Requirements Application which was filed on February 26 for an increase in its revenue requirement. Subsequently on March the 22<sup>nd</sup> by Order G-40-16, the Commission granted an interim rate increase of 4 percent.

Now it's my pleasure to introduce several other people to you today and I'll ask them to stand when I introduce them.

First there is Laurel Ross, acting Commission secretary. Thank you, Laurel. And Yolanda Domingo who is acting director of our rates department. And Paul Miller, he's Commission counsel. And Hal Bemister, our hearing officer. And also Keith Bemister who is over on the right there.

As you can see the session is being transcribed tonight and the transcription will form part of the evidentiary record of the application.

1                   We're very pleased to be in Victoria today  
2                   to hold this community input session and we are here  
3                   to listen to your comments on the application. But  
4                   before we do so I am going to ask Ms. Ross to give a  
5                   short presentation she's prepared on the Commission  
6                   and its process and then I'll ask Ms. Domingo to give  
7                   a short presentation that she's prepared on the rate  
8                   setting process and BC Hydro's application.

9                   Then I will come back and I'll make a few  
10                  further remarks and then we will be ready for your  
11                  comments. So we're just going to pull the screen down  
12                  and go ahead, Laurel. Thanks.

13                  **PRESENTATION BY LAUREL ROSS:**

14                  MS. ROSS: Thank you everyone for coming today. My name  
15                  is Laurel Ross and I'm the acting Commission secretary  
16                  and I'm here to provide some background on the B.C.  
17                  Utilities Commission as well as some information on  
18                  how you can participate in Commission processes.

19                  So what is the B.C. Utilities Commission?  
20                  The Commission is an independent regulatory agency of  
21                  the B.C. Provincial Government and it's comprised of  
22                  full and part-time commissioners appointed by the  
23                  Lieutenant Governor in Council.

24                  The Commission has a mandate to regulate  
25                  energy utilities as well as ICBC's universal  
26                  compulsory automobile insurance. The Commission's

1 mandate, duties and decision-making powers are  
2 governed the *Utilities Commission Act* and other Acts,  
3 regulations and special directions.

4 I thought it would be helpful to go through  
5 some terms that are frequently used in Commission  
6 proceedings as I think these terms will come up  
7 frequently in today's sessions.

8 So firstly a proceeding. This is the full  
9 process from beginning to end to decide a matter  
10 before the Commission. So for example right now there  
11 is a proceeding established to revue the BC Hydro  
12 F2017-2019 revenue requirements. And my colleague  
13 Yolanda will speak to that proceeding after my  
14 presentation.

15 The evidentiary record. This refers to all  
16 documents filed in connection with a proceeding and it  
17 forms the evidence that will be heard by the  
18 Commission panel in making their decision. It  
19 includes items such as the application, amendments to  
20 the application, information requests, in addition to  
21 transcripts of oral components of the proceeding. So  
22 the transcript for today's community input session  
23 will be included on the record.

24 The regulatory timetable. This refers to  
25 the full schedule established by the Commission panel  
26 of dates and deadlines for the proceeding. So it may

1 include the dates for certain hearing components. For  
2 example if there's an oral hearing scheduled. It will  
3 also include filing deadlines for items such as  
4 information requests, submissions and argument.

5 In terms of Commission roles in a  
6 proceeding, the Commission panel, typically there's a  
7 panel of Commissioners assigned to a specific  
8 proceeding. And you've met the three panel members  
9 that have been assigned to the BC Hydro F2017-2019  
10 Revenue Requirements Application. They're responsible  
11 for establishing the regulatory review process and  
12 they hear all of the evidence in order to arrive at  
13 the necessary decisions.

14 Commission staff also play an important  
15 role. Typically cross-disciplinary teams are formed  
16 for specific proceedings usually comprised of  
17 accountants, economists and engineers, and they ensure  
18 sufficient information is collected and provide  
19 technical advice to the panel.

20 Commission counsel also plays a role. They  
21 assist the panel on legal issues and in the event of  
22 an oral hearing they may cross-examine on behalf of  
23 Commission staff.

24 Now in terms of how members of the public  
25 can participate in Commission proceedings, first I  
26 wanted to highlight Letter of Comment. So letters of

1 comment are intended to provide any member of the  
2 public with an opportunity to contribute views, impact  
3 or potential impact with respect to any matter before  
4 the Commission to the public record.

5 These letters of comment must be submitted  
6 using the Letter of Comment Form and this is available  
7 on the Commission's website and I will provide links  
8 to the website and where you can find all this  
9 information at the end.

10 And as a side note, I will note that  
11 interveners are typically not able to submit letters  
12 of comment given their active participation in a  
13 proceeding and we will discuss intervener status  
14 shortly.

15 Interested Party Status. So for parties  
16 that do not expect to actively participate in the  
17 proceeding but want to receive e-mail notification of  
18 all documents filed may wish to register online with  
19 the commission as an interested party. Interested  
20 parties cannot actively participate in a proceeding,  
21 meaning they don't have the same participation rights  
22 as interveners, however they may file a letter of  
23 comment.

24 And next, Intervener Status. So for  
25 parties that expect to actively participate in a  
26 proceeding they should register with the Commission as

1 an intervener. Interveners are expected to  
2 participate actively and adhere to the established  
3 regulatory timetable. Active participation includes  
4 filing information requests, attending any scheduled  
5 hearings, cross-examining as well as providing final  
6 argument.

7 To request intervener status a party must  
8 complete and submit the request to intervene form to  
9 the Commission secretary and this form includes  
10 several things that will be considered by the  
11 Commission panel in determining whether or not to  
12 accept the party as an intervener.

13 The first thing is that the party must  
14 demonstrate to the satisfaction of the Commission that  
15 they are directly or sufficiently affected by the  
16 decision or that they have experience, information or  
17 expertise that would contribute to the Commission's  
18 decision-making.

19 In addition the form provides that the  
20 person requesting intervener status must include a  
21 list of key issues that they intend to pursue in the  
22 proceeding. And the Commission panel will make the  
23 final determination as to whether or not to accept the  
24 intervener.

25 I also just wanted to touch on a few points  
26 regarding privacy when participating in Commission

1 proceedings. So when registering to participate in a  
2 matter before the Commission the collection and  
3 publication of personal information is authorized  
4 under certain sections of the *Freedom of Information*  
5 *and Protection of Privacy Act* and I've highlighted the  
6 sections up on the slide.

7 What this means is, for interveners, by  
8 submitting a request to intervene you're consenting to  
9 the use and display of your personal information in a  
10 proceeding and for interested parties and those  
11 submitting letters of comment, their name and contact  
12 information will be included on the evidentiary  
13 record. However we only publish names on the public  
14 website and contact information is redacted.

15 To finish off I just wanted to provide some  
16 helpful links on the Commission's website. The  
17 Commission website has lots of good information on  
18 participating in Commission proceedings. On the main  
19 webpage you'll find the rules of practice and  
20 procedure which include the rules related to many of  
21 the things I've spoken about today. There is also a  
22 proceeding webpage set up for the BC Hydro F2017-2019  
23 Revenue Requirements Application proceeding where  
24 you'll find all documents filed on the public record  
25 in connection with the proceeding. We also have a  
26 participate in a proceeding webpage, which includes

1 all of the information related to participation as  
2 well as any of the necessary forms that I've mentioned  
3 today.

4 And finally I've just included contact  
5 information. So if you do have any questions on this  
6 matter or any other matters before the Commission you  
7 may choose to contact the Commission secretary by e-  
8 mail or by phone.

9 And the concludes my presentation. Does  
10 anybody have any questions?

11 Good. I'll turn the mic over to my  
12 colleague Yolanda Domingo.

13 **PRESENTATION BY YOLANDA DOMINGO:**

14 MS. DOMINGO: Great, thank you very much.

15 Well, thanks for joining us this evening.  
16 Now we are a very small organization and we haven't  
17 had a lot of opportunity to do much community and  
18 stakeholder engagements. So this is an opportunity  
19 for the Commission to engage with the public to hear  
20 what you have to say. It's also a chance for the  
21 communities in B.C. to tell us what you're concerned  
22 about. So this is your opportunity to voice your  
23 concerns to the panel and they're here to listen to  
24 you tonight. So we're very happy to share this  
25 experience with you.

26 So before we talk specifically -- maybe I

1 should advance my slides first of all.

2 So before we talk specifically about the BC  
3 Hydro application I wanted to give you a little bit of  
4 insight into the rate setting processes here at the  
5 B.C. Utilities Commission.

6 Previously Laurel has talked about the  
7 *Utilities Commission Act* and that's a piece of  
8 legislation which governs our jurisdiction. That is  
9 what the Commission is empowered by government to  
10 carry out.

11 So here are just a few sections of that  
12 legislation which are relevant to what we are going to  
13 be talking about today.

14 Section 59. This is the section that  
15 governs the rate setting powers of the Commission. So  
16 it says:

17 "A public utility must not make, demand or  
18 receive [a rate] that is...unjust,  
19 unreasonable, unduly discriminatory."

20 So what does that mean really? Unjust, unreasonable.  
21 Well if we flip that around another way of putting it  
22 is that a rate must be fair and reasonable for the  
23 service and the quality that it's being provided.

24 Now fair and reasonable is a bit of a broad  
25 definition. It usually requires a lot of judgment in  
26 addition to an evaluation of a detailed evidence

1 that's provided in an application, and the  
2 determination of what's fair and reasonable or whether  
3 a rate is unjust or unreasonable lies in the hands of  
4 the Commission panel.

5 And because that is their duty, the panel  
6 needs to hear all of the evidence and have a full  
7 review of the application and all the submissions  
8 before any judgments or determinations can be made.  
9 And so they can't prejudge any content or  
10 interpretations of that application.

11 So while they are here to listen to you  
12 today, they may not be able to comment on any of your  
13 questions or submissions at this time. Doing so would  
14 make the process biased or may violate the procedural  
15 fairness at this point.

16 Another section of the Act which is quite  
17 important, it's section 45 and this governs what we  
18 call "Certificate of Public Convenience and Necessity"  
19 and what that is really is just a fancy word for  
20 capital project pre-approvals. The Commission does  
21 not specifically grant pre-approvals for every single  
22 capital spending that a Utility makes. For example if  
23 a utility spends \$100 on office supplies or pencils, a  
24 million on service trucks, pre-approval for ever  
25 single dollar spent would just be extremely  
26 inefficient, extremely costly also for ratepayers.

1 The reason is because the cost of regulation, so the  
2 cost of having a Commission panel, reviewing the  
3 evidence, that ultimately becomes a ratepayer cost.  
4 And I'll speak more about that later on.

5 So therefore there's usually a certain  
6 dollar limit that's established in terms of major  
7 projects that require a preapproval. And again  
8 similar to a rates application, a certificate of  
9 public convenience or necessity, those pre-approved  
10 capital projects usually require an application to be  
11 made by the utility and then a fulsome review of the  
12 evidence is conducted and a thorough review of any  
13 missing information or evidence or any other items  
14 that may be lacking. And so that's all part of the  
15 regulatory review process.

16 So once a certificate is granted the  
17 utility is then allowed to collect the reasonably  
18 incurred costs to carry out that project into their  
19 rates.

20 Another important item to note, and even  
21 though these are the powers of the Commission, these  
22 powers can be truncated by special directions from our  
23 provincial government. As an example there have  
24 previously been a number of BC Hydro capital projects  
25 that have been directed by the provincial government  
26 which bypasses the Commission's normal review process.

1 And I will speak more about this and give you some  
2 examples of it later on.

3 So hopefully it's not too overwhelming at  
4 this point. I know it's a lot of legal jargon, but  
5 the point of showing you all these relevant pieces of  
6 legislation is to let you that the regulatory process  
7 is highly complex. It encompasses a large degree of  
8 processes and enactments and sometimes even  
9 interpretations of the powers that are granted to the  
10 Commission.

11 For example we do get a lot of calls from  
12 concerned citizens of the province who tell us that,  
13 you know, they just don't want rates to increase. And  
14 I get that. And no one does. I don't want my rates  
15 increased either. But I do respect that there is a  
16 fair and transparent process that's in place to look  
17 after the public interest. And certainly there are  
18 many issues that the panel must take into  
19 consideration as they adjudicate that process.

20 So then you might ask how do rates get  
21 established? Well, at a high level utilities need to  
22 first apply to the Commission to make any kind of rate  
23 adjustment. Whether it's an increase or decrease,  
24 they simply cannot do this arbitrarily. So by  
25 definition any approved rates, or posted rates, are  
26 the only rates that a utility is allowed to charge to

1           their customers.

2                       So during the rate setting process  
3           utilities are allowed to recover their prudently  
4           incurred costs, costs to provide safe reliable  
5           service, and also a percentage allowed as an earned  
6           return for their investment in the utility assets.  
7           The concept, maybe it's relatively simply, however the  
8           application of that concept is generally much more  
9           complex. Utilities have a number of various line  
10          items that add up to their total cost of doing  
11          business.

12                      So here's some examples: The cost of  
13          energy, so this could include the physical generation  
14          of electricity or sometimes the purchase of  
15          electricity from various external sources; the  
16          transmission of that electricity from the generating  
17          station to a local substation; the distribution of  
18          that electricity from the substation to your home;  
19          perhaps the transformation of that electricity to make  
20          it safe to bring into your home. There's also the  
21          cost of answering the customer calls about their  
22          bills; potentially the upgrade of dams and other  
23          infrastructure other capital needs the utility  
24          requires; the depreciation of those capital assets;  
25          and of course there is the regulatory cost, as I  
26          mentioned previously, like the cost to hold a hearing

1 to have Commissioner adjudicate the process,  
2 Commission staff and also Commission counsel, that all  
3 comes under regulatory costs as well.

4 So all of those types of costs all add up  
5 to what we call the revenue requirement. Essentially  
6 the revenue requirement is the total bucket of costs  
7 that is required to provide service to all customers  
8 in that utility service area.

9 Another main component of the revenue  
10 requirement is the load forecast. So for example if  
11 there is a forecast increase in the expected demand  
12 for electricity, then there could be an increase in  
13 costs associated to meet that demand. But also there  
14 is an opportunity to sell more units of energy, so  
15 additional revenue. Now, if the forecast revenues are  
16 smaller than the utility's costs of doing business  
17 then that's what we call a revenue deficiency, and  
18 that means that all rates would have to increase in  
19 order to make up that difference.

20 Now just as it is important to understand  
21 what a rate application or a revenue requirement  
22 application is, it's also important to understand what  
23 it is not. So I think at this point it's probably  
24 important to note that a revenue or sorry, a rates  
25 application is not the same thing as a rate design  
26 application. What we do currently have is a rate

1 design application for BC Hydro that's already  
2 underway. And that application reviews whether each  
3 class of customer, for example residential, commercial  
4 or industrial, or they're each class of customer is  
5 recovering their fair share of the total bucket of  
6 costs. And also in that rate design application it  
7 also looks at the different components of the rates,  
8 for example the basic, the basic charge, the energy  
9 charge and whether they should be adjusted or not. So  
10 that's the content of the rate design application not  
11 in this upcoming revenue requirement application from  
12 BC Hydro.

13 So earlier we talked about this big bucket  
14 of costs, that's the big bucket of cost of doing  
15 business. And the Commission must review those costs.  
16 However, within that bucket there are also a number of  
17 costs that the Commission may not review. These all  
18 come from a number of special directions that are  
19 passed through cabinet and ultimately issued to the  
20 Commission in terms of our regulatory oversight of BC  
21 Hydro. This limits certain powers of the Commission.  
22 More recently and probably more significant is  
23 direction number 7, and we do have a handout here in  
24 the back that, that was passed and approved by cabinet  
25 on March 5<sup>th</sup>, of 2014. So there's a number of  
26 directive to the Commission that's included in that,

1           that direction.

2                           And one of the more interesting pieces is  
3           what we refer to as exempt projects. These are  
4           projects that have been mandate by the government to  
5           bypass the Commissions normal regulatory review  
6           processes. In addition to that Commission has also  
7           been ordered that it must allow BC Hydro to fully  
8           recover the costs that have been or that have or will  
9           be expected to be incurred with respect to these  
10          projects that are listed and other smaller ones that  
11          they have there. Now if we take all that into  
12          consideration what this means is that these and other  
13          identified projects which have been specified by the  
14          government are not within the scope of this upcoming  
15          rates application. The Commission does not have the  
16          discretion to review the costs or disallow any portion  
17          of the costs that's related to these identified  
18          projects.

19                          So let's take a look at the BC Hydro  
20          application now. So what we do know is that they  
21          files an interim application on February 26<sup>th</sup>. This is  
22          a bit of a unique situation as we currently don't have  
23          a fulsome application with evidence that's before the  
24          Commission. Under normal circumstances BC Hydro would  
25          normally file and application to the Commission by the  
26          end of February so that they can implement a rate

1 change at the start of their next fiscal year, which  
2 is April 1<sup>st</sup>. However in this case what we do have is  
3 just a preliminary application. And why didn't they  
4 file a full rate application? Well, from the first  
5 page of their preliminary application we understand  
6 that there's been an number of economic and fiscal  
7 decisions that have been made or are expected to be  
8 made by the provincial government which will impact BC  
9 Hydro's costs and also their load forecasts for the  
10 upcoming fiscal period.

11 So therefore Hydro has indicated to us that  
12 they have to wait for this additional information  
13 before they can make a fulsome and complete  
14 application to the Commission. And that we understand  
15 is expected the late summer, likely the end of July.  
16 And some examples of the information that they're  
17 waiting on is so BC Hydro is forecasting there's going  
18 to be a long term demand growth in all sectors of the  
19 economy and different customer classes as well. There  
20 are also anticipating that this is -- there's going to  
21 be a million people over the next 20 years, which is  
22 going to drive up the demand for energy. There's also  
23 certain sectors, such as the industrial sector or the  
24 government has certain plans to develop liquefied  
25 natural gas, so that might have some impact on BC  
26 Hydro as well.

1                   Again, this is just BC Hydro's position at  
2 this time, we don't actually have any supporting  
3 evidence at this point. But even if we did, I mean,  
4 the panel would still need to conduct their thorough  
5 review of all the evidence before they can agree or  
6 not agree to those positions. Now, after the  
7 application is file Hydro with then, I'm sorry the  
8 Commission will then determine the appropriate  
9 regulatory review process. So following this late  
10 summer application, the Commission will then determine  
11 how we want -- what's the best approach to review all  
12 that information. And this is the time that parties  
13 can register as interveners or interested parties to  
14 participate in that review. So at this point we  
15 haven't established what that review may be. It could  
16 be a short written review process where the Commission  
17 staff and possibly interveners could ask questions of  
18 BC Hydro or it could be a longer process, we're not  
19 just -- we're not sure at this point.

20                   During the regulatory process the utility  
21 provided the bulk of the evidence, so the onus is on  
22 the applicant to provide sufficient evidence to  
23 convince the Commission panel that they evidence is  
24 thorough, it makes sense, it's complete, it's fulsome,  
25 it's free of errors. So they need to justify that the  
26 rate or the costs that they are applying for are

1 prudent and they're reasonable.

2 In addition to the utility providing  
3 evidence registered interveners at that time could  
4 also provide their own evidence, counter evidence and  
5 I guess just to make note that any evidence that is  
6 provided from interveners may also be cross-examined  
7 by any other party, that's in the application.

8 So previously I've said that BC Hydro has  
9 filed their application back in February in order to  
10 enact rate changed for April, and the reason why they  
11 had to do this is because the general rule for the  
12 Commission is that before a rate change may be in  
13 effect there's a 30 day period, so they have to apply  
14 30 days before the affective date of those rate  
15 changes. And at this point the Commission has  
16 reviewed the base information that's provided in that  
17 preliminary application and has approved an interim  
18 rate of 4 percent. And so rate payers should know  
19 that this interim rate adjustment is subject to refund  
20 or readjustment after the Commission has gone through  
21 that thorough review of the application and all the  
22 evidence.

23 So, we go back to, again, direction number  
24 7. Direction No. 7, this is section 9, also  
25 established a certain rate caps. These are the caps  
26 and the rate increases that BC Hydro may charge. So

1 those are capped at 4 percent in fiscal 2017, 3.5  
2 percent in fiscal 2018, and 3 percent in fiscal 2019.  
3 In that same direction the government also said that  
4 if BC Hydro's forecast required rate change exceeds  
5 the rate caps that are set out here the Commission  
6 must order BC Hydro to defer those costs increases in  
7 BC Hydro Rate Smoothing deferral account.

8 So from the preliminary application we know  
9 that BC Hydro has indicated that if the rate caps were  
10 not in place their forecast increases in fiscal 2017  
11 is actually closer to 9.7 percent. So what this means  
12 is that it's capped at 4 percent the balance is going  
13 to be pushed into the Rate Smoothing account for  
14 future costs recovery.

15 There are other directives in that  
16 direction number 7, for example there's a direction to  
17 the Commission that it must ensure that the rates  
18 allow BC Hydro to collect sufficient revenue to enable  
19 it to provide reliable service and also to meet all of  
20 its debt service tax and other financial obligations.  
21 So there's an number different orders that are in  
22 there.

23 So in terms of looking at a 4 percent  
24 increase what does this look like on a typical  
25 residential customers bill? So in your bill there are  
26 four components, there's the basic charge, a step 1

1 and possibly a step 2 energy charge, and then there is  
2 also a rate rider. And so 4 percent is applied  
3 uniformly across all components of that rate. So if  
4 we take last years pieces of the rate and we increment  
5 that by 4 percent, we get the rates that are listed  
6 here on the right hand column. And here's just a  
7 sample bill that actually shows all those different  
8 rate components in there. And again all those rates  
9 that are shown on the bill are verified at the 4  
10 percent increase.

11 So in conclusion I do hope that you have a  
12 greater appreciation for the Commission regulatory  
13 processes and the rate setting process, and also the  
14 scope of what we expect to review in the upcoming BC  
15 Hydro application. So if you have any questions at  
16 this time I would be happy to answer.

17 No. Great well thank you -- oh, yes.

18 VOICE: Does the registration as a interested party mean  
19 that one gets copies of the load forecast and the  
20 application.

21 MS. DOMINGO: The other applications you mean?

22 VOICE: Hydro's application.

23 MS. ROSS: So in registering as an interested party you  
24 will receive email notification of all documents that  
25 are on the public record. So the application would be  
26 included in that information, and the load forecast, I

1 would expect that to be included in the application.

2 MS. DOMINGO: If there is no other questions at this time  
3 I think, Commission Chair, you need to say a few  
4 words? Do you need to say anything? No. Should we  
5 invite any parties to come up? Okay, thank you.

6 THE CHAIRPERSON: Hello again. I would like to take just  
7 a few minutes to explain why this session today is  
8 important, and I'm going to cover some ground that  
9 Laurel and Yolanda have already covered, but I think  
10 that it's important that we repeat it just to  
11 underscore the importance of it.

12 The Commission must base its decisions on  
13 the evidence before it, nothing more and nothing less.  
14 In considering our decision the commission must  
15 consider among other things the sections the section  
16 of the Act and applicable directions that Yolanda has  
17 outlined. Your input today will form part of the  
18 evidence that that Commission panel will consider in  
19 making its decision. That is why the session today is  
20 being transcribed all will be posted as a hearing  
21 exhibit. Your submissions here today will form part  
22 of the Letters of Comment submission section of the  
23 hearing.

24 Now, some of you will have submitted or  
25 will submit letters of comment which will form part of  
26 the proceeding record, and Laurel gave you some detail

1 on that a few minutes ago. The Commission feels that  
2 for issues of the nature of this application, it's  
3 valuable to also allow for in person input as well as  
4 written submissions. I understand that there are a  
5 couple of individuals who've registered their intent  
6 to present a submission to the panel, so we've  
7 convened here today to hear your thoughts.

8 And because the submissions we hear today  
9 will form part of the record of this proceeding it is  
10 important that we set some process or rules in place  
11 to insure fairness, efficiency, and relevancy.

12 First point is irrelevance. This  
13 application relates to the BC Hydro's Revenue  
14 Requirements as Yolanda has explained. We want to  
15 hear comments that are within the scope of the  
16 application.

17 Second, fairness. We've deliberately gone  
18 through a process of registration and ordering of  
19 submissions through the acting Commission secretary.  
20 Late requests require leave to participate and we will  
21 be able to accommodate those requests. And we would  
22 ask that your presentations be limited to a fifteen  
23 minute maximum, although we'd be prepared to hear more  
24 if there is a reason for that.

25 The third point is efficiency. It is  
26 helpful if the submission is on topic and concise, and

1 if a prior speaker has covered essentially what you  
2 want to say, please, rather than repeating what people  
3 have said before you if you adopt and support what  
4 they have said earlier that will be just as effective.

5 So I hope this is helpful to you and I'd  
6 like to thank Laurel and Yolanda for your  
7 presentations. Thank you very much. And I hope they  
8 were helpful to you also. And I would invite with you  
9 to meet with them following the session if you have  
10 any questions about the Commission and its process.

11 So Mr. Miller, if there is any other  
12 matters to deal with, shall we start the  
13 presentations?

14 MR. MILLER: Not that I'm aware of, Mr. Chair.

15 THE CHAIRPERSON: So do we have somebody who has  
16 registered to make a presentation?

17 MR. MILLER: I believe Mr. Domingo has the list.

18 THE CHAIRPERSON: Okay. Okay, thank you. Sorry, I  
19 didn't catch the name, Mr. Richard?

20 MR. McCANDLESS: Richard McCandless.

21 THE CHAIRPERSON: Thank you.

22 **PRESENTATION BY MR. McCANDLESS:**

23 MR. McCANDLESS: Good evening. I'll just repeat because  
24 I've written it all down.

25 My name is Richard McCandless and I am a  
26 retired former B.C. government senior manager. I

1       retired in about 2006, and for the last five years  
2       I've been researching the financing of ICBC and  
3       latterly BC hydro, and how the government has used  
4       these two public corporations to improve its balance  
5       sheet.

6                In 2013, my article on "The 40-Year History  
7       of the Government's Involvement in ICBC's Finances"  
8       was published by BC Studies. This is an academic  
9       journal about British Columbia and it's published out  
10      of UBC. My article, entitled "Rate Suppression and  
11      Debt Transformation: The Political Use of BC Hydro  
12      2008 to 2014" has been accepted for publication by BC  
13      Studies in its fall 2016 journal. Their summer  
14      edition was full, so it was put until the fall.

15              I have prepared excerpts that I would like  
16      to file with the panel, along with a couple of other  
17      documents if that's okay with the panel. I would also  
18      note that I have been an intervener in the  
19      commission's 2014 and 2015 reviews of ICBC's rate  
20      requests. I compliment the panel on holding these  
21      community sessions and for providing me with a few  
22      minutes to address some key points.

23              Directive 7 severely limits the  
24      Commission's authority to set cost-based electricity  
25      prices for the next three years. Yet by legislation  
26      the Commission must approve rate changes on related

1 issues. My presentation is in two parts: how the  
2 government has manipulated the finances of BC Hydro,  
3 and what the Commission – with its circumscribed  
4 authority – can do with the current rate proposal.

5 So in terms of the government's financial  
6 manipulation, and this is kind of summarizing my  
7 article that is about to be published, the 2008  
8 financial crisis and the resulting economic recession  
9 led the provincial government to make the return to a  
10 balanced budget its top priority. As accounting rules  
11 treat Crown corporation net income as government  
12 revenue, maintaining and potentially increasing this  
13 revenue is important. Any cash dividend helped to  
14 slow the growth in the direct operating debt of the  
15 government, and since 2014, reduce the actual direct  
16 debt level.

17 The provincial control of BC Hydro's  
18 finances was intended to help meet the balanced budget  
19 objective, and to promote private investment in power  
20 generation, and to provide an indirect financial  
21 subsidy to industry and other users through suppressed  
22 rates. Recently, the government has ordered BC Hydro  
23 to provide overt subsidies to the mining sector. The  
24 key method was the abuse of the unique deferral or  
25 regulatory accounting feature of regulated power  
26 utilities. Deferring cost variances -- or expenditure

1 over-runs is a more common understanding -- allowed BC  
2 Hydro to meet its high government mandated return on  
3 equity targets, provide a dividend, and suppress  
4 electrical rate increases.

5 Initially, during the aftermath of the 2008  
6 financial crisis, the utilities commission was  
7 prepared to expand the use of deferral accounts as a  
8 temporary measure to moderate rate shock. By 2012,  
9 however, it was becoming concerned about the rapid  
10 increase in Hydro debt. This was when the government  
11 took direct control over rate setting. Regulatory  
12 accounting rules treat the net deferral balance as an  
13 asset, which increases equity. Thus, debt was  
14 transformed into equity, which allowed BC Hydro to  
15 take on more debt and still pay a dividend to its sole  
16 shareholder.

17 The new ten-year financing plan, announced  
18 in November 2013, was essentially a continuation of  
19 the high ROE target and the use of deferred  
20 expenditures, to achieve the net income and dividend  
21 targets.

22 Hidden in the details of Directives 6 and  
23 7, as noted earlier, issued in March 2014, was a new  
24 deferral account called the "rate smoothing regulatory  
25 account." This new twist allows BC Hydro to record  
26 future unapproved revenue in the current reporting

1 period. This form of accelerated revenue appears to  
2 not conform to accepted accounting principles. From  
3 2014/15 to 2015/16 some \$290 million has been recorded  
4 in this account, with a further \$250 million planned  
5 in the interim 2016/17 rate submission.

6 As the panel probably knows two days ago  
7 Adrian Dix, the opposition critic for BC Hydro, wrote  
8 to the Auditor General to seek her opinion as to  
9 whether the recording of future unapproved revenue  
10 conforms to Canadian or American accounting rules. I  
11 would expect that the panel will have a keen interest  
12 in Ms. Bellringer's opinion as this revenue  
13 acceleration account forms the keystone to the  
14 government's rate targets and financial plan for BC  
15 Hydro. In total, from 2010/11 to 2015/16  
16 approximately \$3.1 billion has been added to the net  
17 deferral accounts balance. In the same period, the  
18 government has recorded approximately \$2.9 billion in  
19 BC Hydro net income and 2.1 billion in cash dividend  
20 transfers which help lower the government's direct  
21 operating debt.

22 Other regulated power utilities use  
23 deferral accounts to smooth rate changes. In 2015 the  
24 ratio of the net deferral balance to total equity for  
25 Hydro Quebec was 18.6 percent, and for FortisBC it was  
26 about 38 percent. So 38 percent of their equity is

1           though the net deferral balance. The ratio for  
2           Pacific Gas and Electric was 7.5 percent and it was  
3           about 9.3 for Southern California Edison.

4                       The ratio for 2016/17 service plan for BC  
5           Hydro is approximately 116 percent before the mining  
6           rate deferral which we've yet to see the results in  
7           the next filing. In other words, without the  
8           deferrals BC Hydro would have been insolvent by 2013.  
9           In 2013, when questioned about the escalating net  
10          deferral balance, Minister Bennett stated that without  
11          the deferrals the required rate increases would have  
12          "A horrible impact on ratepayers" and would result in  
13          "Blood on the streets..." And that was out of Hansard,  
14          17<sup>th</sup> of July, 2013. He did not consider the  
15          alternative, which would have been a much lower net  
16          income and no dividend to the government.

17                      The government continues to justify the  
18          rapid growth in BC Hydro's debt as resulting from the  
19          renewal and expansion of the asset base. However,  
20          when questioned during the 2016 estimates, Minister  
21          Bennett admitted that all of the dividend from 2014/15  
22          to 2018/19 would be borrowed. This means that at  
23          least \$329 million of the 2016/17 net income -- a lot  
24          of numbers here -- of \$692 million will be borrowed.  
25          The government has budgeted a \$264 million surplus for  
26          the current year.

1                   So that 264 surplus is dependant on 44  
2 billion of revenue, and that in turn -- part of that  
3 in the 692 million Hydro net income, and of that 329  
4 million is borrowed at minimum, that's what they'd  
5 admit to. So the amount borrowed at Hydro to pay the  
6 government exceeds the government surplus. Little  
7 wonder that in its April 14<sup>th</sup> editorial, the Victoria  
8 Times Colonist called the dividend to the province a  
9 "shell game." But the inflated net income is also  
10 part of the pattern of manipulation.

11                   In 2010/11, Hydro's long-term debt was  
12 \$11.5 billion, and the projection for 2016/17 is \$19.7  
13 billion, an increase of \$8.2 billion or 70 percent.  
14 In its latest report on government finances, Moody's  
15 financial is concerned about the weak finances at BC  
16 Hydro.

17                   What can the BC Utilities Commission do?  
18 When the government took control of rate setting in  
19 2012, it signaled a lack of confidence that the  
20 Commission, "a group of unelected bureaucrats and  
21 lawyers," in Minister Bennett's words -- and this came  
22 from Justine Hunter in the Globe and Mail -- -- the  
23 Commission would make decisions on BC Hydro matter's  
24 that wouldn't conform to the government's priorities.

25                   The fundamental question boils down to who  
26 represents the public interest? In its November 2014

1 report, the independent review of the BC Utilities  
2 Commission recommended that the Commission's  
3 independence be restored, with the government setting  
4 broad policy goals. How this would work in specific  
5 matters is still unclear, because with BC Hydro  
6 finances the devil is very much in the details.

7 From my research, this government has  
8 manipulated the financial details of our public power  
9 utility to meet its balanced budget objectives, and to  
10 set rates lower than necessary during election years.  
11 In 2013 the rate was set at 1.44 percent, which is far  
12 lower than the requirements. And in 2017 it'll be set  
13 at 3 percent.

14 In the short run, given Directive 7, there  
15 is little that the commission can do directly. But  
16 assuming the government adheres to its promise of  
17 returning full rate-setting authority to the  
18 Commission in the next couple of years, there are some  
19 measures that are possible now. These measures focus  
20 on assisting the public to become better informed  
21 about BC Hydro's weak finances and the need to  
22 carefully review previous assumptions to ensure they,  
23 individually and collectively, continue to meet a  
24 public interest principle.

25 In 2012 the commission planned to review the  
26 use of deferral accounts. Such a review is long

1 overdue. Possible areas of focus include, why does BC  
2 Hydro's solvency ratio remain so low compared to other  
3 public sector plans? Are the annual DSN expenditures  
4 really capital in nature? It appears that most of the  
5 energy savings are consumers reacting to the higher  
6 prices. Should the rate rider, or deferral repayment  
7 surcharge to be more precise, be expanded to encompass  
8 all regulatory accounts? Just to elaborate on that,  
9 in their plans, they intend to shift some of that five  
10 percent in the next few years to general operating not  
11 focus it on the deferral accounts. So, that needs to  
12 be watched carefully.

13 Does the acceleration of revenue conform to  
14 accepted accounting principles? Now, I wrote that  
15 before I learned that Mr. Dix had written to the  
16 auditor general. So I have added a clause, is there  
17 any precedent for this deferral? I read the Hansard  
18 debate. Mr. Dix asked Mr. Bennett that precise  
19 question, and with the senior Hydro officials behind  
20 him to give advice, he could not give a precedent.

21 The government's restriction on the use of  
22 natural gas to generate electricity comes at  
23 significant cost especially in light of the low price  
24 of this provincial resource. What is this cost?

25 If nothing else, the Commission has the  
26 means to provide an open and transparent process for

1 examining these and other questions. There has been  
2 no public hearing on BC Hydro finances and related  
3 policy questions for at least eight years. It is time  
4 to reestablish the Commission's credibility in  
5 representing the public interest, and to provide a  
6 voice for future generations.

7 Thank you for your time.

8 THE CHAIRPERSON: Thank you, Mr. McCandless.

9 MR. McCANDLESS: I'll answer any questions if you have  
10 any?

11 THE CHAIRPERSON: I don't have any questions, but we  
12 appreciate your comments and you certainly had a wide  
13 array -- your comments certainly covered a wide range  
14 of issues, and as Yolanda explained before, we will  
15 consider evidence that is relative to the application.  
16 When we make our determination, we'll certainly  
17 consider those aspects of your comments that we can.

18 MR. McCANDLESS: And I have the other documents I  
19 referred to on this disk which I just should leave  
20 with Laura?

21 THE CHAIRPERSON: Yes, please.

22 MR. McCANDLESS: All right, thank you.

23 THE CHAIRPERSON: Thank you. Yolanda, is there  
24 another --

25 MS. DOMINGO: We just want to open the floor if there is  
26 any other individuals who would like to speak?

1                            If not, I believe that is the end of our  
2           session. Mr. Miller?

3 MR. MILLER: I am not aware of anything further, Mr.  
4           Chair.

5 THE CHAIRPERSON: I would like to thank you all again for  
6           coming out. I appreciate you taking time on your  
7           Friday night and thanks. Have a wonderful rest of the  
8           evening.

9           (PROCEEDINGS ADJOURNED AT 7:55 P.M.)

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26