

BRITISH COLUMBIA UTILITIES COMMISSION

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

And

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

**Vancouver, B.C.
May 23rd, 2018**

WORKSHOP

BEFORE:

K. Keilty,	Chair/Commissioner
W. Evertt, Q.C.	Commissioner
R. Mason	Commissioner

APPEARANCES

P. MILLER	Commission Counsel
C. BYSTROM	Counsel for British Columbia Hydro and Power Authority
C.P. WEAFER P. WEAFER	Counsel for Commercial Energy Consumers Association of British Columbia (CEC)
J. QUAIL	Counsel for Movement of United Professionals (MoveUP)
W. ANDREWS	Counsel for B.C. Sustainable Energy Association and Sierra Club of B.C. (BCSEA/SCBC)
D. AUSTIN	Clean Energy Association of BC (CEBC)

BC HYDRO STAFF

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VANCOUVER, B.C.

May 23rd, 2018

(PROCEEDINGS RESUMED AT 9:08 A.M.)

4 THE CHAIRPERSON: Good morning. My name is Karen Keilty,
5 and I am the Panel Chair for BC Hydro review of
6 regulatory oversight of capital expenditures and
7 projects. With me today are Commissioners Bill
8 Everett and Richard Mason.

On March 15, 2018 by Order G-59-18, the BCUC issued a regulatory timetable which included this workshop. This workshop is an opportunity for BC Hydro to present the contents of its initial proposal filed with the BCUC on April 3rd, 2018. The initial proposal addresses each of the items within the scope of the review as proposed by the BCUC in Order G-63-16, and includes draft capital filing guidelines.

The objective of this workshop is to improve participants' understandings of the initial proposal and to support the development of a revised proposal to be filed by BC Hydro with the BCUC by June 13th, 2018. This workshop will also provide an opportunity to discuss the technical or clarifying questions on the initial proposal submitted by the BCUC and interveners as of April 23rd, 2018.

On May 18th, 2018, in Exhibit B-4, BC Hydro provided responses to these questions. The panel

would like to thank BC Hydro for filing these responses in advance of this workshop. This workshop will form part of the evidentiary record for the proceeding, and it will be transcribed. The materials will be posted as evidence.

After I have completed my opening remarks,
and participants have introduced themselves, I will be
turning the workshop over to BC Hydro to take us
through its presentation. I expect BC Hydro will
allow parties to ask questions for clarification
during its presentation, and at the end of the
presentation there will be an opportunity for
questions following the order of introductions.

Following completion of BC Hydro's presentation and the question-and-answer part of the workshop, based on the order of introductions, each party may provide a brief high-level closing comment outlining its views on the initial proposal, which views BC Hydro can consider in the development of its revised proposal.

21 Proceeding Time 9:11 a.m. TO2

Please note that the panel members may ask questions of BC Hydro or other parties during this workshop. We expect that the workshop will end between 3 and 4 p.m. and we will have a break in the morning and in the afternoon and we will be breaking

1 for lunch. I will ask BC Hydro presenters to decide
2 on the appropriate times for the breaks based on the
3 flow of their presentation and the question and
4 answers.

5 During the workshop, to facilitate the
6 transcription process, we request that you state your
7 name prior to speaking.

8 Now, beginning with BC Hydro we request
9 that participants introduce themselves and state who
10 they represent, and each party may make a brief
11 statement on the expected outcomes from the workshop.

12 In accordance with BCUC Order G-89-18
13 further regulatory process for the review will be
14 determined following a procedural conference to be
15 held on June 27, 2018 subsequent to the filing of BC
16 Hydro's revised proposal on June 13, 2018.

17 Thank you, and we will start with the
18 introductions and then turn the workshop over to BC
19 Hydro for its presentation.

20 MR. HIGGINS: My name is Geoff Higgins, I'm manager of
21 regulatory affairs for capital projects and resource
22 planning within the regulatory and rates group of BC
23 Hydro. I'll be kind of leading the workshop part of
24 this today.

25 Basically Hydro's main goal for today is to
26 hear the feedback on our initial proposal so that we

1 can take that information and that feedback and
2 consider it as we develop our revised proposal.

3 And we are also here to try and answer some
4 further clarifying questions as they arise. As a
5 result of that we brought a number of people from our
6 company to help address those questions. Thank you.

7 THE CHAIRPERSON: Thank you.

8 MS. UMENYI: *Chinwe Umenyi*, I'm a the Senior regulatory
9 specialist.

10 MR. BYSTROM: *Chris Bystrom*, counsel for BC Hydro in this
11 proceeding.

12 MR. WYNNE: *Michael Wynne*, Director of Finance for the
13 Capital Project

14 MR. JAMES: *Fred James*, Chief Regulatory Officer at BC
15 Hydro.

16 MR. KUMAR: *Ajay Kumar*, Director of Line Asset Planning,
17 BC Hydro.

18 MR. DARBY: *Andrew Darby*, Director of Station Asset
19 Planning, BC Hydro.

20 MS. PINKSEN: *Alicia Pinksen*, Manager of Portfolio
21 Optimization and Management.

22 MR. HENZEL: *Steve Henzel*, representing Fleet Services,
23 BC Hydro.

24 MR. HABOLY: *Edward Haboly*, Acting Director of Project,
25 Program and Portfolio Services within our Project
26 Delivery Group.

1 MR. MASON: Steven Mason, Manager of Project Services in
2 Project Delivery.

3 MR. BROWNLOW: Harry Brownlow, Manager of Commercial
4 Management and Project Delivery.

5 MR. SCHUBAK: Bob Schubak, Director of BC Hydro Dam
6 Safety.

7 MR. FISH: Martin Fish, Manager of S&M Planning for
8 Properties.

9 MR. MCDONALD: David McDonald, IT Portfolio Manager,
10 Technology, representing Kip Morrison, the CIO today.

11 MS. KNEZEVIC: Laura Knezevic.

12 MR. HOMER: Ian Homer, Senior Compliance Officer at BCUC.

13 MR. CRAIG: David Craig, Commercial Energy Consumers.

14 MR. WEIMER: Jim Weimer talking for Clean Energy B.C.

15 MR. AUSTIN: David Austin Counsel for Clean Energy B.C.
16 If we're going to make an opening statement, should we
17 do it now?

18 THE CHAIRPERSON: Yes, thank you.

19 MR. AUSTIN: I like to refer everybody in the room to
20 Exhibit B, item 3, and that's page 3. It's B.C.
21 Hydro's initial proposal. And on page 5 there's a
22 graph that shows BC Hydro's consolidated actuals by
23 asset group.

24 Now, F15 to F26, and really what we are
25 looking at is a period from Fiscal '17 to Fiscal '26.
26 You will note in there that the capital expenditures

1 are going to be in the order of about \$20 billion.
2 And that's going to have a very significant pressure
3 on BC Hydro's rates.

Proceeding Time 9:17 a.m. T03

5 And in terms of allocation capital the
6 Clean Energy Association of B.C. is very much
7 interested in just how BC Hydro allocates its capital.
8 And in particular, to maximize the revenue. You can
9 make a capital decision, or investment decision, that
10 maybe costs a dollar that will return ten dollars in
11 revenue, or you can make a capital investment decision
12 that costs ten dollars and returns one dollar in
13 revenue. This is, to the Clean Energy of B.C., the
14 crux of BC Hydro's problem.

15 Its revenues are not going up, but its
16 fixed costs are. And in today's world, which is no
17 longer dominated or not to be dominated by a central
18 utility, there is going to be competitive forces in
19 the market. So if you're not really working extremely
20 hard to keep your rates down, including capital
21 expenditures, you run the risk of customers voting
22 with their feet, leaving stranded assets.

23 So to the Clean Energy Association of B.C.,
24 that's got to be a key part of BC Hydro's capital
25 allocation over the next ten years. We appreciate
26 this RRAP has brought Site C building into it, and

1 there's really not a lot anybody can do about that.
2 But there's another ten billion or so in capital
3 expenditures that will require a lot of discipline in
4 terms of the allocation of capital.

5 And to illustrate that point, if you go to
6 page 37 of Exhibit B-3, you will see the start of the
7 tables where BC Hydro is going to be making major
8 capital expenditures. And that continues on to page
9 41. So what the people in this room should be asking
10 themselves is, which of those capital investments are
11 going to provide the greatest return for the
12 investment?

13 And we have been asking questions about
14 that. And if you turn to Exhibit B-4, and this is BC
15 Hydro's response to Clean Energy Association of B.C.
16 IR 1.1.0, BC Hydro says it has an enterprise-wide
17 investment framework which is supplied by the business
18 units to identify rank, risk, and value of certain
19 capital expenditures in a consistent way. And what
20 we'd like to hear in this workshop is, where is the
21 return investment, in terms of this enterprise-wide
22 investment framework. And how are investors ranked on
23 the basis of returns?

24 In that same, Exhibit B-4, Clean Energy
25 Association of B.C. Information Request 1.5.0, we
26 asked how is the target debt to equity ratio of 60/40

1 to rank and prioritize projects and a reasonable
2 return on equity? How is the weighted average cost of
3 capital taken into account? How is it determined?
4 What amortization period? And BC Hydro response is,
5 "The target debt to equity ratio and weighted average
6 cost of capital are not directly related to how BC
7 Hydro ranks and prioritizes projects. It's part of
8 the capital planning and prioritization process."

Proceeding Time 9:22 a.m. T04

21 Those are my initial comments.

22 THE CHAIRPERSON: Thank you.

23 MR. QUAIL: Jim Quail, Counsel for MoveUP, which is
24 inside worker's union at BC Hydro. Of course we
25 welcome this process. We want to underscore that this
26 -- my understanding is that this is about regulatory

1 oversight review and not about the substantive
2 prudence of any particular projects or investments.
3 And it's also not a resource planning and procedure.
4 What we are going to be looking for is improved
5 transparency and accountability in Hydro's capital
6 expenditure process.

7 And also, to avoid potential concerns or
8 ambiguities about the possibility that some projects
9 have been structured around the review thresholds,
10 that the process is clean in terms of it, and neutral
11 in terms of its relationship with the regulatory
12 structure.

13 That's all I have to say at this time.

14 MR. ANDREWS: Bill Andrews, I'm counsel for the B.C.
15 Sustainable Energy Association and the Sierra Club of
16 B.C. at the Utilities Commission. From my client's
17 perspectives there are a number of different
18 challenges involving balances. The transparency
19 between knowing things in advance and having
20 flexibility to change things later and so on. There's
21 no simple correct answer to these balance challenges.
22 And I look forward to participating.

23 MS. RHODES: Janet Rhodes, Commercial Energy Consumers
24 Association of B.C.

25 MR. WEAFER: Chris Weafer, Owen Bird, Counsel to the
26 Commercial Energy Consumers Association of B.C. Just

1 a few contextual comments.

2 First, the CEC is a ratepayer group. As we
3 say in all of these events, we're the ones who pay the
4 bills, ultimately risk-wise we're the ratepayers and
5 so we were very mindful of a proper ability for the
6 Commission to review regulatory oversight of capital
7 expenditures and that they are part of the ratepayers
8 and stakeholder's ability to participate.

9 The contextual comments are we've had two
10 successive governments who have proposed rate
11 increases for BC Hydro. We've got an existing
12 government that we understand is doing a financial
13 review of BC Hydro and I'm sure that it's -- by many
14 at BC Hydro and we respect and understand that there
15 is a lot of work going on there. We have a high
16 respect for a lot these (inaudible) for what they do.

17 As Mr. Austin points out, looking forward
18 to the next ten years, we've got about \$20 billion
19 dollars in capital plans and they're identified in the
20 application. On top of that we've got ratepayers
21 facing fairly massive and growing deferral accounts
22 down the road.

23 So, as an opening concern, when we look at
24 what's been filed by BC Hydro, it's essentially a
25 status quo application in the sense of the guidelines
26 proposed. And if we look in the various categories of

1 capital and how they get reviewed, in all four major
2 areas, essentially the application states it's as
3 we've done it before. So we would hope to get out of
4 this process some understanding of how BC Hydro has
5 factored in these fairly strong directives from the
6 shareholder to freeze rates or create affordability in
7 the context of the planned \$20 billion expenditures
8 over the coming years.

9 We, the CEC, has some more specific
10 concerns about what's there and especially they may
11 not be able to communicate those by June 13th and is
12 looking at filing evidence as far as the process to
13 provide some other suggestions as to how to increase
14 transparency and how to increase the utilization in
15 the private sector type initiatives in terms of
16 cost/benefit analysis of investments. We've seen some
17 areas, particularly IT, where there are strategy
18 decisions made which guide the company over years that
19 never get put back in terms of cost analysis of a
20 project. We're not looking at an after-the-fact
21 prudency review, but at least some evidence that on
22 the front end, the investments which are ratepayer
23 dollars are going to return benefits to the ratepayers
24 ideally in a form of more cost of service.

25 So at a high level our focus today is
26 around how did you turn your mind to what we

1 understand to be the specific directions of the
2 shareholders, because there's a lot of money being
3 spent, and we are concerned that that is not going to
4 be effectively reviewed by -- or the ability to effect
5 a review is not going to be there based on the
6 guidelines put forward. And we look forward to you
7 trying to convince us otherwise through the course of
8 the day, and we, of course, just cooperatively and
9 appreciate the opportunity to participate in this
10 workshop. Thank you.

11 MR. WEAFER: Patrick Weafer, articling student at Owen
12 Bird, and appearing on behalf of CEC.

13 MS. JONES: Laura Jones, Regulatory Engineer at BCUC.

14 MR. ZHUANG: Davy Zhuang, Regulatory Engineer at BCUC.

15 MS. LAI: Tanya Lai, Regulatory analyst at BCUC.

16 MS. SIMONE: Nicola Simone, Director of Facilities and
17 Planning, BCUC.

18 MR. STOLLARD: Phil Stollard, Regulatory analyst BCUC.

19 MR. MILLER: Paul Miller, Counsel for BCUC.

20 THE CHAIRPERSON: Right. Thank you. And we'll turn it
21 over to BC Hydro at this point.

22 MR. HIGGINS: Thank you.

23 In terms of going through my presentation
24 or a presentation today, we thought we'd start with an
25 introduction talking about -- starting out with a
26 review of the regulatory process that has occurred to

1 date. I know that's actually been covered actually
2 fairly well, so I'll probably go through that slide
3 fairly quickly.

Proceeding Time 9:28 a.m. T05

5 THE CHAIRPERSON: Mr. Higgins, do you have a hard copy of
6 your presentation?

7 MR. HIGGINS: Yes.

8 THE CHAIRPERSON: Thank you.

9 THE HEARING OFFICER: Marked Exhibit B-5.

(BC HYDRO "CAPITAL EXPENDITURE & PROJECT REVIEW")

POWERPOINT PRESENTATION MARKED EXHIBIT B-5)

PRESENTATION BY MR. HIGGINS:

13 MR. HIGGINS: It's just coming.

14 And so I will touch a bit on the proceeding
15 scope that was issued by Order, by the Commission.

16 And talk about our initial proposal, and how it was
17 developed, and the purpose of this workshop. Again,
18 some of that's already been covered, so the
19 introduction part of my slides will be fairly brief.

In terms of going into the sort of our initial proposal and our capital planning guidelines, we'll talk about scope of review in the revenue requirement applications, how a major application, major project applications are reviewed, and our compliance reporting that is provided. And we'll also identify a few revisions that we've noted that have

1 come up through the answering of our technical and
2 clarifying questions.

3 And so I think -- moving into the
4 regulatory process, as I've said, much of this has
5 been covered. I think the important documents really
6 probably are attached as Appendix B to Commission
7 Order 63-16, which outlines the scope of this
8 proceeding.

9 Generally, BC Hydro participated in the
10 procedural conference in November. At that time, the
11 scope documents were adopted by the -- or the scope
12 items were adopted by the proceeding and the
13 Commission. And we provided our initial proposal on
14 April 3rd, 2018, as directed in the decision in the
15 F17/19 revenue requirements application. And we've
16 also provided our clarifying questions -- or answers
17 to clarifying and technical questions as of May 18th.

18 I'll note that there was approximately 240
19 clarifying and technical questions that were responded
20 to at that time.

21 In terms of the proceeding scope, the
22 Commission set out that the proceeding scope in
23 Commission Order -- Appendix B, the Commission Order
24 G-63-16. In that scoping document, the Commission
25 asks us to consider the scope, timing and process for
26 the review of our capital expenditures, and the

1 appropriateness of those reviews in various filings
2 that we make, which include revenue requirement
3 applications, our annual report, project-specific
4 compliance filings, and applications for Certificates
5 of Public Convenience and Necessity under Section 46.1
6 of the *Utilities Commission Act*. And Section 44.2
7 filings, which I'll address a little further on.

8 The Commission also requested that -- or
9 they asked, you know, how it should address different
10 types of capital forecasts within our proceedings,
11 such as in an RRA, they asked us to consider how
12 projects that are approved or started prior to an RRA
13 and expected to enter service in the test period, or
14 outside the test period. The Commission asked us how
15 to address -- how it should address projects exceeding
16 the thresholds, and not approved or started prior to
17 an RRA, and expected to enter service in the test
18 period, or outside the test period.

19 The Commission also asked how projects
20 below the threshold and not approved or started prior
21 to an RRA should be reviewed in terms of when it's
22 expected to enter service in the test period, or
23 outside the test period.

24 **Proceeding Time 9:33 a.m. T6**

25 With respect to the annual report and other
26 project specific type of compliance filings, BC Hydro

1 provides those reports to assist the Commission in
2 reviewing capital information within our system of
3 reporting.

4 And the Commission in its proceeding also
5 requested -- in the scoping documents also requested
6 that BC Hydro should address the following issues,
7 which are: clarity on what constitutes a project,
8 which includes consideration of how to treat and
9 review independent projects or programs that are
10 linked in function and/or geographic terms and in
11 aggregate meet or exceed the prescribed expenditure
12 thresholds. We should also address standardized
13 convention for naming and tracking of projects as they
14 move through their life cycle and may move through
15 various different proceedings, so that there's
16 consistency in how we track and present our projects.

17 And a strategy to review projects linked to
18 capital strategies. And in terms of those capital
19 strategies, those might include things like strategies
20 that talk about projects within an overall watershed,
21 such as the Campbell River or Bridge River systems.
22 It could include IT projects in relation to the five-
23 year capital plan, so.

24 Still on the proceeding scope, the
25 Commission asked us to consider the appropriateness of
26 BC Hydro's 2010 capital filing guidelines for IT

1 projects or should it propose separate IT filing
2 guidelines. We were also asked to consider the
3 appropriateness of expenditure thresholds in BC
4 Hydro's 2010 capital project filing guidelines and the
5 circumstances under which it may be appropriate for
6 Hydro to file a CPCN application versus a section 44.2
7 application addressing the following, which include:
8 seeking input on the position that for CPCNs
9 applications are only filed for extensions; to
10 evaluate whether or not it is appropriate for
11 extensions to include general plant and IT projects;
12 and given that a utility is prohibited from starting a
13 project until the CPCN is issued, consider the
14 appropriateness of filing section 44.2 applications
15 for projects where the duty to consult First Nations
16 is triggered.

17 So BC Hydro developed its initial proposal
18 based on these scoping documents or to address to a
19 large extent these scoping documents. And in terms of
20 how to track our proposal to the scoped items we
21 included a table of concordance in Appendix A to
22 Exhibit B-3.

23 In the development of our initial proposal
24 BC Hydro established a working group to review the
25 2010 capital project filing guidelines, and to
26 consider the proposed scope items, and to develop an

1 initial proposal, which has been filed as Exhibit B-3.

2 The working group was made up of a number
3 of individuals from integrated planning, project
4 delivery, properties, information technology and
5 finance, and considered such items as the major
6 project application threshold values and categories;
7 the review of programs versus projects; mechanisms for
8 the review of projects linked to capital strategies,
9 plans and studies; and the ease of tracking projects
10 across filings, considering naming conventions and the
11 unique planning identification numbers.

12 **Proceeding Time 9:37 a.m. T07**

13 BC Hydro established a steering committee
14 to oversee the working group, and to oversee the
15 development of the initial proposal. And the initial
16 proposal was reviewed and endorsed by BC Hydro's
17 executives.

18 In terms of the purpose of the workshop,
19 the Commission set out its expectations for the
20 workshop in Exhibit A-12, which was issued on May 4th.
21 Amongst other things, in Exhibit A-12, indicated that
22 the workshop will be transcribed. Each participant
23 will make a brief statement as to what they expect in
24 terms of outcomes from the workshop. Presenters are
25 not sworn in and there will be no cross-examination,
26 but clarifying questions are permitted.

1 BC Hydro, as I said in my opening
2 statement, the objective of -- our objective in this
3 workshop is to accomplish -- or to receive feedback
4 from the BCUC and interveners on the initial proposal,
5 and the proposed 2018 capital filing guidelines, and
6 to provide further clarifying questions. As indicated
7 by Commissioner Keilty, the objective of the workshop
8 is to improve participants' understanding of the
9 initial proposal and support development of the
10 revised proposal. BC Hydro will seek to respond to
11 these clarifying questions and we will take into
12 consideration comments and questions that are provided
13 or made today, and hopefully we'll be able to answer
14 many of your questions. We brought a fairly broad
15 group of people who represent a number of different
16 areas within our company. And as I say, hopefully
17 we'll be able to answer most of your questions. But
18 there may be some questions and there may be some
19 requests of BC Hydro that we'll need to take away and
20 consider in the context of our planning and project
21 delivery practices and procedures at Hydro before we
22 are able to provide an answer.

23 So I just wanted to make sure that people
24 know that we are -- we will try and be as helpful as
25 we can, but that there may be situations where we have
26 to take things away and think about them.

Just turning to the initial proposal now.

As we developed our proposal, it was developed to respond to the scope items outlined in Commission Order G-63-16. The initial proposal provides background and nature of BC Hydro's capital, including the size of future investments, which has been identified by Clean Energy Association B.C. and others. The types of investments that we make, such as growth, sustained, safety and risk-related investments, and also by type of power systems, including generation, dam safety, transmission, distribution, properties, IT, fleet and other capital investments.

The initial proposal also goes over sort of our oversight and performance and discusses how BC Hydro projects are reviewed by BCUC, including through individual project applications such as CPCN, or Section 44.2 applications. And how they're -- how projects are reviewed in RRA, revenue requirement applications. And various compliance reporting mechanisms that BC Hydro follows.

22 BC Hydro also provides its own -- its
23 strong governance and oversight of its capital program
24 through approvals by a board of directors, a capital
25 committee of the board, management -- and various
26 management committees. For IT-related investments, BC

1 Hydro executives review and sign off on the IT capital
2 plan and five-year strategic plan. Performance
3 showing that overall BC Hydro's performance has been
4 very near the budget, when you look at sort of the
5 five-year rolling date set, generally coming in at
6 less than one percent variance to budget over those
7 five-year data sets.

8 BC Hydro also provides its views of
9 appropriate scope of Commission's reviewing RRA
10 processes, guidelines for major project applications.
11 The initial proposal provides clarity on programs.
12 Strategies, plans and studies. And various compliance
13 reporting in other matters. The 2018 proposed capital
14 filing guidelines incorporate those changes discussed
15 in the initial proposal, and are discussed in more
16 detail now in the following slides.

17 **Proceeding Time 9:43 a.m. T08**

18 BC Hydro is of the view that the 2010
19 capital project filing guidelines have provided the
20 BCUC with oversight of large complex major projects
21 with significant public-interest impacts and that
22 generally they've been working quite well. However,
23 the existing guidelines are, I guess, now eight years
24 old. I believe the -- well, the 2010 guidelines were
25 issued in the summer of 2010, and they probably should
26 be updated to reflect BC Hydro's planning processes,

1 its experience, and should recognize that much of BC
2 Hydro's capital investments are appropriately reviewed
3 through its RRAs or revenue requirement applications,
4 through compliance filings, and as well as through
5 large -- or, sorry, individual major project
6 applications.

7 The proposed 2018 capital filing guidelines
8 has expanded on the scope of the 2010 capital
9 guidelines to reflect the following. They include
10 guidance on scope of review in revenue requirement
11 applications. They include guidance on new
12 information in revenue requirement applications, such
13 as Appendices I and J, and a new as-yet-unnamed
14 appendix for strategies, plans and studies.

15 Changes to the major -- they also include
16 changes to the major project application threshold
17 categories to include all work on power system assets
18 in one category, with a \$100 million threshold. The
19 2018 capital project filing guidelines also include
20 guidance on capital expenditures included in the
21 annual report, and includes guidance on the manner,
22 form and timing of project-specific progress in the
23 final reports. The proposed guidelines continue to
24 allow -- in BC Hydro's view, the proposed guidelines
25 continue to allow for a fair and efficient process.

26 MR. WEAFER: Madam Chair, did you want questions as we go

1 or -- sorry.

2 THE CHAIRPERSON: We'll hold significant questions for
3 after the presentation. But if you have something
4 you'd like to clarify -- thank you.

5 MR. WEAFER: I didn't know if you wanted to break it up--

6 MR. HIGGINS: Thank you.

7 So, in our view, much of the -- or,
8 virtually the entire capital plan is reviewed through
9 RRAs, including major projects. And the projects, as
10 discussed in Chapter 4 of our initial proposal,
11 projects that have a CPCN or an accepted expenditure
12 schedule, or an exemption, with expenditures or
13 additions within the test period, the project need
14 alternatives and forecast costs, schedule and other
15 public interest issues, have generally been considered
16 already within those major project applications. And
17 therefore with respect to the scope of review in a
18 revenue requirements proceeding, it should probably be
19 more limited to include -- you know, to include
20 consideration of the execution of the project and
21 forecast total costs, rather than continuing to review
22 something that's already been approved by previous or
23 other applications.

24 For projects with an issued CPCN or
25 accepted expenditure schedule, BC Hydro will continue
26 to provide ongoing project progress reports, usually

1 as directed within an Order attached to a major
2 project application decision. And for regulatory
3 efficiency, BC Hydro believes that a detailed
4 consideration execution is probably best reviewed at
5 project completion when actual costs and project
6 outcomes are known and understood.

7 In terms of major projects, projects that
8 are subject to a future CPCN or expenditure schedule
9 application with expenditures or additions in the test
10 period, again, detailed consideration of the need and
11 alternatives will be explored within an application
12 for CPCN, or Section 44.2 application, as they come
13 forward. Therefore, we believe that it's probably
14 best to consider those, the need and alternatives, at
15 the time that we file the application. However, you
16 know, major project applications in an RRA could
17 consider need and public interest issues, and the
18 scope of review in a revenue requirements proceeding
19 may test the reasonableness of the forecast
20 expenditures, capital expenditures and additions. But
21 capital additions -- the capital additions regulatory
22 account will capture timing differences between
23 forecast and actual capital additions.

24 And similar to projects that have a CPCN
25 already, or a Section 44.2 accepted expenditure
26 schedule already, BC Hydro believes that it's probably

best -- in the best interests to wait until those
2 projects have completed their -- or at completion to
3 review how the project was executed and so -- and to
4 see the final costs and project outcomes will be known
5 at that time.

In terms of other projects, so projects
that don't seek -- or are smaller and don't exceed the
thresholds and will not be seeking a CPCN application,
or a Section 44.2 application, BC Hydro believes
that's -- the bulk of the capital program fall into
this category.

Proceeding Time 9:49 a.m. T6

Review in an RRA could include the examination of need, alternatives and the reasonableness of the forecast. BC Hydro considers that it's appropriate to focus on capital additions rather than capital expenditures. And the reason for that is that we believe we don't want to duplicate effort as projects will most likely show up in the next RRA application as a capital addition if it's considered an expenditure in the current RRA. If there are no capital additions in the test period a project mostly likely is probably in its earlier stages of development, therefore it's probably best to wait until it's gone through a higher degree of planning before we ask a lot of questions about it.

1 And capital expenditures do not impact
2 rates in a current test period, therefore it's, again,
3 probably best to wait until a capital expenditure
4 becomes a capital addition in order to sort of test
5 those projects. And detailed consideration of project
6 execution, again, is best reviewed at a project
7 completion when actual costs and project outcomes can
8 be known and understood.

9 Turning now to recurring capital programs.
10 recurring capital programs are -- BC Hydro believes
11 that those are best reviewed in revenue requirements
12 applications. They tend to consist of work programs
13 that are highly standardized, high volume, short
14 timeline, repeatable, low complexity type of work. An
15 example of a recurring program would be replacement of
16 wood poles. Acquisitions and one-time -- one-time and
17 recurring annual purchases such as IT acquisitions are
18 also examples of recurring capital programs and are
19 probably best reviewed in our revenue requirement
20 application. Work is often placed into service for
21 these types of programs, recurring programs, in the
22 same year as the expenditure is made. So, again,
23 generally low complexity, high volume type of work.

24 In terms of a program of projects,
25 individual projects in a program of projects, BC Hydro
26 recommends that these be reviewed as -- in a revenue

1 requirement application or, if meeting the threshold
2 for a CPCN or a section 44.2 application, as a major
3 project application. Program -- oh sorry, move the
4 slide.

5 A program of projects include individual
6 projects with standalone benefits that can be achieved
7 independent of other projects. Individual projects
8 within a program are often at different stages of
9 development with different level of project
10 definition.

11 Projects in a program can be added to or
12 removed from the program over time. And managing
13 individual projects as a program can provide
14 advantages in areas such as procurement and managing
15 system interdependencies. An example of a program of
16 projects could be penstock recoating program. A few
17 programs of projects can be funded with one business
18 case, but it's BC Hydro's view that they should not be
19 treated as a single project as these consists of,
20 again, low risk, repeatable projects and should be
21 considered individually as it comes into service in a
22 revenue requirement application.

23 In terms of enhancements to our revenue
24 requirement application in order to facilitate review
25 by the Commission and interveners, BC Hydro is
26 proposing in its initial proposal that new information

be included in Appendix I of revenue requirements applications, and that would include a project's unique planning identification number to help track projects and programs across filings and from one revenue requirement application to the next; an indication of which strategies, plans, or studies a project is linked to; and an indication of which program -- or of which program a project is a part of. And as I said earlier, we'll be including a new appendix in our revenue requirement applications that provide descriptions of strategies, plans and studies that have been identified.

Proceeding Time 9:55 a.m. T10

Just before I leave this slide, we indicated that we'll be providing an indication of which program a project may be a part of. In BC Hydro's response to BCUC IR 1.6.8, BC Hydro indicated that we would be including program costs for recurring programs in Appendix I, which is not correct. And we'll be revising that response, and we'll file that revision with the Commission as an errata later this week or early next week.

1 In our view, recurring capital programs are
2 generally driven by asset health information, which is
3 described fully in Chapter 6 of an RRA, and we believe
4 that this is probably the best place for BCUC to
5 consider and review recurring capital investments.

6 With respect to CPCN or expenditure
7 schedule filings, BC Hydro will file a CPCN
8 application for major projects that are extensions.
9 BC Hydro interprets an extension project to be one
10 that is initiated with the intent of expanding the
11 geographic service area or capacity of the utility
12 plant or system.

13 Power system facility, end of -- we
14 consider that extensions include facility end of life
15 replacement, such as John Hart generating station
16 replacement project. They could be new projects
17 designed to serve incremental energy and/or peak load
18 growth. For example, the Dawson Creek and Chetwynd
19 area transmission project.

20 Or they could be refurbishing projects that
21 are not undertaken specifically to serve incremental
22 load growth but through efficiencies, resulting in
23 additional capacity and energy on a planning basis.

24 BC Hydro also commits to filing expenditure
25 schedule application under Section 44.2 of the
26 *Utilities Commission Act* for major projects that are

1 not extensions, such as the supply chain applications
2 project, the W.A.C. Bennett riprap upgrade project,
3 and Hugh Keenleyside spillway gates project.

4 Expenditure schedule applications will
5 include the same information generally as a CPCN
6 application, and that they will provide information
7 required by the British Columbia Utilities Commission,
8 2015 CPCN guidelines.

9 With respect to thresholds and categories
10 for major projects, BC Hydro is proposing in its 2018
11 capital filing guidelines that three major categories
12 be used. The first will be a \$100 million threshold
13 for power system projects. These types of projects
14 will be generation, transmission, substation,
15 substation distribution assets, and distribution and
16 dam safety projects. This will increase the threshold
17 for distribution projects from 50 million to \$100
18 million.

19 We propose a \$50 million threshold for
20 buildings projects and a \$20 million threshold for
21 information technology projects, which is similar to
22 what we have now.

23 With respect to fleet vehicle and equipment
24 and other capital investments, BC Hydro is of the view
25 that these are mainly recurring capital work and are
26 best reviewed generally in a revenue requirements

1 application.

2 Based on these capital filing thresholds,
3 BC Hydro estimates that they will be filing
4 approximately 23 major capital project applications
5 over the next ten years. And that represents
6 approximately 20 to 30 percent of non-exempt capital
7 expenditures over that period

8 **Proceeding Time 9:59 a.m. T11**

9 We also considered lowering -- if we
10 lowered a threshold, it would result in approximately
11 sort of a doubling of the number of major project
12 applications from 23 to approximately 44 over the same
13 time period. And you would have a view of
14 approximately 25 to 40 percent of non-exempt capital.

15 With respect to compliance reports, BC
16 Hydro files an annual financial reports providing
17 information on the immediate past fiscal year. Annual
18 financial report is -- it does provide historical
19 actuals, and there are variance explanations between
20 forecast capital projects and actual results for the
21 previous year. But basically annual financial report
22 does not really -- it does not lead to a Commission
23 decision on rates, a CPCN issuance, or an expenditure
24 schedule acceptance.

25 Capital expenditures in the annual
26 financial report include comparisons between planned

1 and actual capital expenditures at the end of the
2 reporting period. And pursuant to Section 45(6) of
3 the *Utilities Commission Act*, BC Hydro will continue
4 to provide a listing of all projects which are
5 considered extensions and are above the agreed-upon
6 materiality limit for Section 7 of that report.

7 With respect to project specific reports,
8 BC Hydro generally files project specific progress
9 reports in the manner and form and timing as ordered
10 by the Commission. Generally, BC Hydro has found that
11 semi-annual reporting works quite well, and that
12 occasionally, depending on the circumstances of a
13 project, in terms of the length or duration of the
14 project and the potential seasonality, BC Hydro may
15 recommend doing an annual report which was accepted by
16 the Commission for the W.A.C. Bennett riprap upgrade
17 project.

18 In terms of a project final report, BC
19 Hydro is proposing that the final report be tabled
20 after a review by its board of directors. Currently
21 we tend to get Orders which suggest -- or which
22 request that BC Hydro file a final report within six
23 months of substantial completion or project going into
24 service, and we find that we're usually having to make
25 applications to extend that. So considering when our
26 board of directors approves or reviews the final

1 reports, it may help in terms of a better expectation
2 of when Hydro can file its final reports.

3 As I mentioned earlier, as we were going
4 through the technical and clarifying questions, BC
5 Hydro noted that there is some amendments that we
6 think we can make to the initial proposal that we'll
7 provide in our -- or in our revised proposal. And
8 I've listed them here. Essentially in paragraphs 3
9 and 4 of the initial proposal, actually of the
10 proposed 2018 capital filing guidelines, BC Hydro used
11 the term "and have not been reviewed in a previous
12 test period". And as we identified in an IR response,
13 we agreed that that probably shouldn't be there, and
14 for clarity, we'll remove that phrase.

15 We're also going to remove the word
16 "capability" from the definition of an extension in
17 the body of the proposal, of the initial proposal.
18 Basically we're of the view that it's really the word
19 "capacity" should be used as opposed to "capability",
20 and that aligns better with the Commission's
21 determination in the thermal energy decision that was
22 issued in -- I can't remember just right now when that
23 happened, but 2015 I believe it came out.

24 And basically we believe that the word
25 "capability" potentially conveys a broader, non-
26 electrical meaning than what would be in an extension

1 under the *Utilities Commission Act.*

2 **Proceeding Time 10:05 a.m. T11**

3 We also identified that there were three
4 projects meeting the criteria for a major project
5 application that were inadvertently omitted from the
6 list included in the initial proposal at Table 5-5.
7 So we'll be -- I believe we updated that table in an
8 IR response, so we'll be including that revision on
9 our initial proposal.

10 And we'll correct the phrase in the initial
11 proposal that programs are "Usually planned and
12 financially approved with a single business case." On
13 further investigation we understood that actually most
14 programs are not approved with a single business case.
15 And to identify projects within a program BC Hydro
16 will indicate in Appendix I if a project is a part of
17 a program by adding another column to Appendix I to
18 indicate that.

19 And in terms of next steps, this has been
20 covered, but Hydro will take away comments and
21 questions that have been raised in today's workshop
22 and consider their inclusion in our revised proposal.
23 And as I mentioned, that changes will have to be
24 considered in the context of BC Hydro's current
25 planning possesses and project delivery practices as
26 outlined in the initial proposal. And we will be

1 filing our revised proposal on June 13th of 2018 and
2 attending the procedural conference scheduled for June
3 27th.

4 So subject to questions, that is our
5 presentation. I was just noticing it was just after
6 10:00, I was wondering it might be a good idea to
7 consider a break at this time, but I've leave that to
8 the commission.

9 THE CHAIRPERSON: Okay, we'll come back at 10:25.

10 MR. HIGGINS: Thank you.

11 THE CHAIRPERSON: Thanks.

12 **(PROCEEDINGS ADJOURNED AT 10:07 A.M.)**

13 **(PROCEEDINGS RESUMED AT 10:29 A.M.)** T13/14

14 THE CHAIRPERSON: Okay. We're going to move into the
15 questions in the order of introduction. So I'm not
16 sure --

17 MR. AUSTIN: The podium magically appeared, which is good
18 news because I was not quite sure where I was going to
19 ask the questions from.

20 If you can go to your slide presentation in
21 slide 11. You'll see on that page it says "Includes
22 guidance on scope of review in revenue requirement
23 applications." The next line says, "Includes guidance
24 on new information in revenue requirement
25 applications," and for the next five or so pages it
26 says at the top, "Scope of review of RRA." I'm

1 assuming that means revenue requirements application,
2 is that correct?

3 MR. HIGGINS: Yes.

4 MR. AUSTIN: The question that I have is, if BC Hydro
5 moves to performance-based regulation why would
6 revenue requirements applications be relevant?

7 MR. HIGGINS: Well, right now -- I mean BC Hydro hasn't
8 made a final determination as to whether it's going to
9 move to performance-based regulation. So right now
10 our regulatory sort of construct is to the file
11 revenue requirement applications, as we did for F17 to
12 '19 and we intend to do for I think '20 and '21. And
13 even if there was a PBR type of application that was
14 developed, capital can still be reviewed in the
15 context of a PBR. So it's not something that is going
16 to change in a large way, I don't think, so.

17 MR. AUSTIN: I'm not that familiar with PBR, but wouldn't
18 it be if you're under a PBR system, which is a
19 performance-based ratemaking system, you're just given
20 some broad latitude to go spend money and you go spend
21 your money and it's not subject to anybody's review,
22 especially on the capital side.

23 MR. HIGGINS: Again, as I said, you know, we haven't made
24 the decision to adopt it yet and that decision will be
25 made some time in the future. As I said, you can
26 still do -- you can still review capital either, you

1 know, through a K-factor I think it is and set your
2 baselines in order to move forward, so.

3 MR. BYSTROM: David, we responded to your IR 1.9 and
4 explain there about how PBR can include the review of
5 capital expenditures, so that would be a good place to
6 start.

7 MR. AUSTIN: Yeah. But I don't understand how it does
8 it, because my understanding of PBR means that I'm not
9 looking at reviewing capital expenditures in advance.
10 And I want to qualify that, because even under the
11 revenue requirements application process you don't
12 look at capital expenditures that occur outside the
13 test period and by the time you get around to
14 reviewing the capital expenditures within the test
15 period they're usually completed or partially
16 completed.

17 So with that caveat, I just want to
18 understand how in a PBR system that there's going to
19 be any review of capital expenditures. And just on
20 the basis of the information within this presentation,
21 most capital expenditures are not going to be covered
22 by an application for a CPCN, they're too small.
23 Maybe 80 percent of them are going to be outside a
24 Certificate of Public Convenience or Necessity, or 30
25 percent, or maybe even 40 percent, depending on your
26 threshold, but that leaves 60 to 80 percent of the

1 expenditures that are going to be outside a CPCN
2 process. And if I have a PBR system it would appear
3 to us that they also would be outside any sort of
4 review. So that's a little bit disconcerting.

5 MR. HIGGINS: Well, I think, again, you know, the
6 decision hasn't been made to go to PBR, but I mean
7 it's something we can certainly take away and consider
8 in the development of any other alternative regulatory
9 construct we might want to adopt.

10 MR. BYSTROM: And I would just add that review of capital
11 under PBR would be the subject of a PBR proceeding in
12 the future, so I think that would be the place to
13 inquire about that further. It's just premature at
14 this time to speculate about what exactly a PBR regime
15 would look like for BC Hydro. But we have provided
16 that response to 1.9 of your IRs, where we describe I
17 think a pretty good answer to your question.

18 MR. AUSTIN: But would it also be fair to say that these
19 capital filing guidelines might be subject to a severe
20 adjustment if you adopt a PBR system? Not necessarily
21 BC Hydro adopting a PBR system, the Commission
22 adopting a PBR system.

23 MR. HIGGINS: It's possible that there may be a change
24 required in the proposed capital filing guidelines in
25 that situation.

26 MR. AUSTIN: Okay, thank you very much.

1 MR. HIGGINS: Thank you.

2 MR. QUAIL: I've asked to sit here because I have a bunch
3 of stuff. Just first of all, I'm glad that Mr. Austin
4 raised the PBR issue and you might think that it's
5 premature, but I don't think I'm alone in the room
6 thinking that the earlier we can stifle the idea of
7 PBR for BC Hydro, the better. Where there's a utility
8 that doesn't have private shareholders out there at
9 equity markets, it's your basic round peg meets square
10 hole, a serious problem. And even on the capital side
11 it's not working for FortisBC. Everybody is in
12 agreement on that who has been involved in the review
13 of Fortis on the capital side. Nobody's figured out
14 how to properly deal with capital under PBR, at least
15 here.

16 And a serious problem where the limit to a
17 lot of oversight of capital is in annual reviews which
18 are very weak mechanism and designed to be as a part
19 of the loose leash that is inherent in the PBR.
20 Anyway, that's a little commentary that I'm sure I'll
21 be told is out of order, so I'll leave it at that.

Proceeding Time 10:32 a.m. T15

23 There's two principal issues that I wanted
24 to raise. One of them is, I released this -- and we
25 only have the PBRs when they were quite targeted. Is
26 trying to figure out what is actually authorized

1 through a 44.2 expenditure schedule process. And I
2 have not tried -- I thought when this was inactive it
3 didn't make a great deal of sense, and I still don't
4 see concretely what entitlement or authorization BC
5 Hydro or any utility, especially Hydro, gets from --
6 through the 44.2 process, formally. It isn't approval
7 of a project, it's approval of an expenditure. Hydro
8 has acknowledged in response to IRs that it'll remain
9 subject to after-the-fact prudence review.

10 So really, what does Hydro have? If they
11 had a process where they'd gotten to display what
12 they're planning on doing, and the Commission can say,
13 okay, we approve it, and the section says that the
14 Commission may accept the schedule, they must accept
15 the expenditure, what does that mean? Does that mean
16 -- it doesn't apparently mean that there is an
17 ironclad entitlement to recover it from rates, because
18 it's subject to prudence reviews.

19 So what is it, is my question? That's sort
20 of what I posed, and I'm not faulting BC Hydro for not
21 really giving much of an answer, because I'm not sure
22 that it really formally conveys any real authority or
23 entitlement to the applicant. But I welcome your
24 comments on that.

25 I'll just -- I've only got one other thing
26 I want to touch on, so I'll raise those, then, and

1 listen to your comments.

2 The other one is some uneasiness that I
3 wanted to express concerning the programs of projects.
4 And I can understand this could be actually an
5 enhancement of transparency if in fact you show -- so,
6 okay, we've got this project, but this is part of a
7 whole series of things, and we want to put you on
8 notice that this is coming. And you can see that.

9 My concern is the potential this could be
10 seen as a back door into the kind of thing that led to
11 this process, that is concerns about -- there is some
12 division of what is really conceived as a coherent
13 project, into severable bundles. That could sort of
14 slide under more strict regulatory review.

15 It would be very helpful to me -- I've gone
16 through your answers and what you said, and what's in
17 your slides. I don't really understand what this
18 creature is. It's not necessarily gathered the same
19 thing as recurring capital projects for in maintaining
20 assets and so on. Can you at least give examples of
21 what kinds of projects would be strung together as a
22 program of projects, and maybe explain when, if ever,
23 would there be any oversight of the program itself,
24 and its appropriateness or prudence?

25 So I'll leave that. 44.2 and programs and
26 projects, both of those being sort of a "what the heck

1 is this?" kind of questions.

2 MR. BYSTROM: Thanks, Jim. I'll take the first question
3 about 44.2 application.

4 So, in the 44.2 application, the
5 Commission, as a result, can accept the expenditures
6 as being in the public interest. That's the language
7 from the *Utilities Commission Act*. As we stated in
8 our IR response, my view is that if BC Hydro or a
9 utility has expenditures approved -- or accepted in
10 the public interest, that it can reasonably expect
11 that the Commission allow those expenditures to be
12 recovered in rates in future revenue requirements. I
13 think it's very akin to a CPCN decision. A CPCN is
14 fundamentally an opinion of the Commission that a
15 project is in the public interest. I think that that
16 is very similar to a 44.2 acceptance of expenditures
17 as being in the public interest.

18 I struggle with a little -- with what more
19 to say to that. But I think it's fairly clear that
20 either a CPCN or a 44.2 represent an opinion from the
21 Commission that the expenditures for a project are in
22 the public interest. As a result, you know, that the
23 utility can expect to be able to recover those costs
24 in rates.

25 MR. QUAIL: I would just point out -- I mean, my
26 understanding of one of the fundamental purposes of a

1 CPCN is so that a capital asset joins the rate base of
2 the utility. It is a fundamental part of the
3 regulatory regime and the regulatory compact. So it
4 conveys a recognition. This pipe in the ground is now
5 part of your rate base, you're entitled to refer to
6 return on it.

7 I don't see that as really being -- the
8 process might look the same, but what it actually
9 conveys, through the utility, is really unclear
10 anyhow. I agree -- I mean, I'm not faulting Hydro. I
11 just think that the language is ambiguous, and the
12 survival of an after the fact prudence review seems to
13 reduce it, at best, to sort of a soft comfort that the
14 utility may proceed. They have some basis to expect
15 they won't get their head cut off, and that might
16 happen.

17 **Proceeding Time 10:38 a.m. T16**

18 And now that it's no longer recognized as
19 the case that there's a presumption of prudence in
20 after the fact review thanks to some decisions by the
21 Supreme Court of Canada, it doesn't look like a very
22 comforting limb that Hydro could find itself on if it
23 proceeds and spends a bunch of money.

24 In your responses you've said, accurately,
25 Hydro doesn't need approval from the Commission to
26 spend money. It's in a different position from a

1 private utility because there isn't really the same
2 question of recovery of the expenditure. It plays
3 differently because of the degree of regulatory
4 intrusion and to, you know, how that mechanism works
5 compared to a private utility. I know I'm sort of
6 musing about this, but I think it may be significant
7 because the question is what exactly is authorized to
8 be done and what can Hydro do?

9 The Utilities Commission says, okay, in
10 this 44.2 we authorized \$120 million. You spend \$180
11 million on what you had in mind. It isn't an approved
12 project, it was an approved expenditure of \$120
13 million but don't need approval to spend more money
14 but it can be rolled back theoretically after the fact
15 through the revenue requirement, is that what we've
16 got? Maybe that's all we've got.

17 MR. BYSTROM: Yeah, I could try a little bit to clarify
18 in response to what you're saying there. I've got
19 three points that I thought might help.

20 One, your conception of a CPCN might be a
21 little bit off. CPCNs required -- not to put it in
22 rate base essentially, the CPCN's required for
23 extensions to public utility plant or system. It's an
24 authorization to construct that extension.

25 The rolling into rate base and so on
26 happens in the revenue requirement proceeding. So in

1 the revenue requirement proceeding you have the
2 expenditures, the capital additions that -- from a
3 project that may be approved through a CPCN or 44.2,
4 and then they get kind of rolled into rate base and
5 approved, and a cost recovery through rates.

6 And the 44.2 and CPCN provide that degree
7 of comfort that you mentioned to the utility, that the
8 Commission has reviewed it and accepted those things
9 as being in the public interest. So that cost
10 recovery, there is a degree of comfort of cost
11 recovery.

12 MR. QUAIL: Save the ongoing debate for some time in the
13 Court of Appeal if the issue arises I guess. Anyway.

14 And my other question was about the
15 programs or projects, what kind of a beast is this and
16 what review would there be of programs?

17 MR. HARRIS: Yeah. And I think I might ask Alicia to
18 give you a bit of an overview of what a program of
19 projects might look like and provide some examples to
20 give you the context of what they are.

21 MS. PINKSEN: Okay. So I want to maybe give a few
22 examples. I think that might help with the discussion
23 here. So we think about programs of projects in sort
24 of three different types of categories. There are the
25 times where we may be looking at related projects
26 happening over a long duration of time, but they're

1 very similar in nature and there is efficiency in
2 having an overall program plan to look at the long-
3 term delivery strategy of those projects so we can get
4 efficiencies there.

5 MR. QUAIL: What kind of stuff would this be? What kind
6 of --

7 MS. PINKSEN: So an example that I can give you is we're
8 undertaking a number of projects to replace reactors
9 in the Peace to Kelly Region. So these are reactors
10 at the end of transmission circuits that are
11 approaching end of life and over the next decade we're
12 going to do on average of two every two years. Each
13 of those would be individual projects looking at
14 individual circuits, but overall we'll have a strategy
15 and a plan for how we plan to deliver that.

16 Another example that's somewhat similar in
17 nature might be where we look at releasing a number of
18 leads into identification and look then at -- study
19 then through identification what's the best
20 alternative. Once we've set that we will release
21 individual projects coming out of identification. And
22 the final example --

23 MR. QUAIL: Could you give an example of what that is
24 too? That's kind of abstract.

25 MS. PINKSEN: Yeah, sure. So an example there is where
26 we're doing circuit breaker replacements at our key

1 generating facilities, and so we need to determine
2 what's the best alternative to address that need.
3 Okay?

4 And then final example here that I'll give
5 you is where we're doing a number of low complexity,
6 low risk projects on the distribution system. An
7 example is in Chinatown we are removing H-Frames and
8 moving our circuits underground. And so each block of
9 the Chinatown area is considered a project, those are
10 delivered together under one program.

11 **Proceeding Time 10:43 a.m. T17**

12 MR. QUAIL: So how's the decision made? Say that
13 example, to treat that as every block is a project,
14 rather than simply treat the whole thing as a simple
15 project? Why isn't that a project to underground the
16 system in Chinatown as opposed to this block --

17 MS. PINKSEN: Right. So, each of the projects in a
18 program of projects has to meet the criteria of having
19 stand-alone benefits. So, in our view, by mitigating
20 the risk within one block, we have achieved the
21 benefit of that project.

22 MR. QUAIL: So if each component of what's really a
23 comprehensive project has itself stand-alone benefits,
24 then you would subdivide that overall program or
25 undertaking into a myriad of little projects, once you
26 can say, well, this -- implementing it here benefits

1 there, and implementing it there benefits another part
2 of the system. Even though it's really one coherent
3 plan, program, that's executed according to a coherent
4 strategy. I just have difficulty -- it looks
5 arbitrary to me, the way that you would -- BC Hydro
6 decides to segregate something like that into a series
7 of small, under the radar -- and I don't mean that to
8 suggest a conspiracy. I don't -- certain projects.
9 Breaking them up into little bits while really it
10 looks to me like a comprehensive project. If you can
11 put it all together in any one district.

12 Anyway, the reason I raise this is,
13 remember how we got into this project and the concern
14 we raised. How do we make sure that there's a high
15 level of comfort that things that are really
16 integrated undertakings are being looked at in a
17 holistic way and not broken up into little bits that
18 aren't subject to as searching a review as such a
19 large overall undertaking probably deserves? That's
20 the essence of my concern. And I'm not suggesting a
21 conspiracy. I can understand how these things happen.
22 But perhaps you should be stepping back and saying,
23 "Well, this really should all be approached more
24 holistically, this particular undertaking."

25 MR. KUMAR: And just to add to what Alicia was
26 mentioning, this is Ajay Kumar, BC Hydro. Some of

1 these programs or projects also have a long lifetime.
2 So it happens over several years. So our ability to
3 actually implement that in a short period of time but
4 then the capital plan is sometimes compromised with
5 things from other projects. So we do take a long
6 period of time to implement those, and the needs of
7 those projects are not as defined as they are in terms
8 of the short-term ones versus the long-term ones.

9 So that's why those are released as
10 projects as it's more well-defined in terms of the
11 cost schedule and the timing, and what we can
12 incorporate into the capital plan. 'Cause if you end
13 up doing all that project within a year, that can be a
14 \$50 million undertaking within that year, and you
15 can't actually accommodate that in the capital plan.

16 MR. QUAIL: Not be done in a year but, for example,
17 revamping IT architecture, that's a longer -- but if
18 it's a single undertaking. And it has, you know, an
19 overall post, kind of postulate, and rate impact, and
20 benefit. Even though you can segregate it into this
21 program and that program and what we do in this thing
22 here, it's all one -- I think that was really the
23 source of concern that got us here.

24 I just want to make sure we don't have the
25 same problem creeping in somewhere else. It's the
26 sort of thing -- I can see the benefit of projecting,

1 where you've got larger strategies that string
2 together a number of projects. It's useful to lay
3 that on the table too. So I'm at a bit of a loss.
4 Which is maybe not unusual on my part.

5 MR. McDONALD: I might be able to add from technology
6 perspective. Technology projects are fraught with
7 risk, as you may know. And oftentimes when they're
8 combined into a program, the aggregated risk can be
9 much greater than the risk of the individual
10 components taken separately. So an example would be
11 -- we did a supply chain solutions project about five
12 years ago and it had four components in it. They were
13 split out into individual projects. And the reason
14 was that each of them had used different technologies.
15 One used Share Point, one had SAP, the other one had
16 Passport, for example. And so if they had been done
17 together, then the program manager would have had to
18 deal with the complexities of pulling together all the
19 different teams. (inaudible) technology, and trying
20 to manage it all together and get -- manage the
21 benefits, costs and risks together.

22 The risk aspect is a big piece of it.

23 MR. ANDREWS: Thank you. Bill Andrews for B.C.
24 Sustainable Energy and Sierra Club. I have two
25 topics.

26 First, just to follow up about the concept

1 of BC Hydro and PBR, I understand that you're saying
2 that no decision has been made, and of course you've
3 said that -- the effect of PBR, if there is an
4 application, would be addressed in a application to do
5 with it.

6 **Proceeding Time 10:49 a.m. T18**

7 I think I'd like to get some context here.
8 When do you anticipate a decision being made, and is
9 the decision being made within, for example, the
10 review of BC Hydro? Or within the greater resource
11 plan? Or what is the -- how is this being addressed
12 through BC Hydro?

13 MR. HARRIS: I think I'll turn that over to Fred James to
14 provide some context in that -- for that question.

15 MR. JAMES: Great. Thanks, Geoff. Fred James, chief
16 regulatory officer. Thanks for your question, Bill.

17 I think, you know, the questions around PBR
18 are getting way ahead of what we should be talking
19 about today. You know, in the revenue requirements
20 decision that came out March 1st, the Commission
21 recommended that we look at possibly moving through a
22 PBR regime. And they've directed us to file a report
23 on that issue by the end of June, which we are in the
24 process of preparing.

25 At this time, you know, what's going to be
26 in that report is basically nothing too definitive, in

1 terms of what PBR might look like for BC Hydro. It's
2 more laying out a document to start consultation
3 around what a PBR process or regime may look like for
4 BC Hydro. And so to start asking questions about how
5 PBR might affect the capital plan, and what the PBR
6 may look like, we really just can't answer those
7 questions here today.

8 In terms of when a decision is going to be
9 made, as I said, the document we'll be filing is
10 intended to begin a consultation process around that.

11 The Commission hinted in their decision
12 that F20 may be the base year to start a PBR program
13 with BC Hydro, and we're looking at that, but no
14 decision has been made on our part, if we think that's
15 feasible or not. Certainly we'll be addressing that
16 in the report that we will be filing.

17 Ultimately I think, you know, the decision
18 whether we go to PBR or not probably lies with BC
19 Hydro and with the Commission, and I would think more
20 probably more on the Commission's side in terms of if
21 they wanted to move us into a PBR-type regime or not.

22 MR. ANDREWS: Thank you. That answers a lot of my
23 questions on that topic. One specifically is, will
24 the report be filed in June be circulated to the
25 participants in this F17 and 19 RRA proceeding?

26 MR. JAMES: Yes, I think that's our intention. Certainly

1 it's a document that all those participants were aware
2 we're going to be preparing, and as I said, the
3 purpose of the document is to start a discussion and
4 consultation around the issue of PBR. So it certainly
5 isn't going to be a confidential document by any
6 stretch. So I would imagine that we will be filing it
7 with the Commission, probably posting it on our
8 website, and I don't see why we couldn't copy the
9 intervenors to the proceeding. The F2017 to F2019 RRA
10 proceeding.

11 MR. ANDREWS: Thank you. That would be appreciated.
12 That's also a site where they actually took my second
13 topic, which is public access to BC Hydro's compliance
14 filings to the Utilities Commission. I note for
15 example that BC Hydro provides an annual financial
16 report to the Commission, but you indicated in
17 response to the IRs that it's not publicly available,
18 though it is available to the public on request. And,
19 for example, the fiscal 2017 BC Hydro annual financial
20 report to the Commission was provided, and references
21 the response to BCOAPO 1.29.1.

22 But I guess my question is, would it -- is
23 there any impediment, or why would we not be able to
24 routinely have a document using -- to start the
25 discussion, the financial annual report to the
26 Commission, routinely available either on the

1 Commission's website or on the BC Hydro website?

2 **Proceeding Time 10:53 a.m. T19**

3 MR. HARRIS: Well, with respect to compliance filings,
4 for instance, for major projects, BC Hydro does
5 provide the Commission with both a confidential and a
6 public version of those progress reports. To the
7 extent that they're provided to the Commission,
8 intervenors can ask -- my understanding is, that
9 intervenors or anybody can ask the Commission for a
10 copy of the public version.

11 I don't have any comment as to whether or
12 not the Commission should put them on their website.
13 I mean, my understanding is, these things do take, you
14 know, server space and server space can be expensive.
15 But it's really -- so far the practice has been for us
16 to file them and, to the extent that people are
17 interested in them, they can get them from the
18 Utilities Commission upon request.

19 MR. ANDREWS: How does BC Hydro decide which of the
20 compliance reports it puts on its own website?

21 MR. HARRIS: Generally we don't put compliance filings on
22 our own website. But again, you know, we're filing
23 them usually as directed by an Order, and therefore we
24 put them -- you know, we file them with the Commission
25 and to the -- as I say, to the extent that there is an
26 interest in them, they can be asked for.

1 MR. ANDREWS: I was going to ask you whether you filed
2 both redacted and unredacted versions.

3 MR. HARRIS: We do.

4 MR. ANDREWS: And you do. And just to complete the
5 thought on that, the unredacted version would be a
6 document that Hydro would be comfortable if the
7 Commission made available to the public. Is that
8 correct?

9 MR. HARRIS: Sorry, the unredacted --

10 MR. ANDREWS: The un --

11 MR. HARRIS: The unredacted version, we would not.

12 MR. ANDREWS: Yes.

13 MR. HARRIS: Yes.

14 MR. ANDREWS: The redacted version. Hydro would be
15 comfortable with the redacted version being made
16 available to the public via the Commission.

17 MR. HARRIS: Yes. That's its intended purpose, yes.

18 MR. ANDREWS: And I mentioned that the annual financial
19 report -- but in the bigger picture, how many
20 compliance reports does Hydro file with the
21 Commission?

22 MR. HARRIS: Oh, my. I don't know how many there would
23 be, but we're filing compliance reports quite
24 regularly. So, I would have to sort of ask our filing
25 department to provide a statistic on that. But I
26 currently don't know.

1 MR. JAMES: Bill, are you talking -- it's Fred James.

2 Are you talking just about capital project compliance
3 reports, or all our compliance reports?

4 MR. ANDREWS: Well, I guess I'm trying to get a sense of
5 what the order of magnitude is.

6 MR. JAMES: I mean, all of our compliance reports, taking
7 that -- I mean, we probably file several hundred a
8 year.

9 MR. ANDREWS: All right. So that gives me a sense --
10 it's not several hundred thousand or anything, it's --
11 so, okay.

12 Would Hydro have any objection to the BCUC
13 making the redacted Hydro compliance reports available
14 on its website? I may have asked that before, but I'm
15 -- this is kind of a more general sum-up question.

16 MR. JAMES: Yeah. No, -- I don't think Hydro would have
17 an objection to making them public on the Commission's
18 website. As I say, we provide a public version of it,
19 so -- in our view, that could be done.

20 MR. ANDREWS: Thank you. Those are my questions.

21 MR. WEAFER: Chris Weafer, Commercial Energy Consumers.
22 Thank you for the presentation today and the handout.
23 Very helpful. I'm just going to go to a couple of
24 high-level questions and following up on some comments
25 I made at the beginning.

26 As we indicated, we don't see a lot of

1 change in the proposal from the prior guidelines, or
2 the review guidelines. And you've indicated, and I
3 think it's fairly evident, that the policy context
4 you're operating in is one of pressure to find
5 affordability for rates.

6 So can you tell me how and if this revised
7 filing from BC Hydro's perspective contributes to that
8 objective of improving affordability and energy costs
9 of Hydro? And are there aspects of changes that
10 you've made that are responsive to that policy
11 direction?

12 MR. HARRIS: Just one second.

13 Yeah, I guess my response would be that our
14 proposal, or our initial proposal, and I guess our
15 revised proposal, isn't really about, you know, trying
16 to determine whether or not, you know, our overall
17 program of capital expenditures and additions are
18 going to be, you know, sort of affordable or not
19 affordable to, to various parties and various
20 ratepayer groups.

21 **Proceeding Time 10:59 a.m. T20**

22 I mean our proposal is really more about
23 the process of how we put forward information on our
24 capital program and individual projects to Commission
25 and intervener groups for their review, and I think,
26 as you said, I mean, this is a bit of an incremental

1 change to the 2010 guidelines as opposed to a
2 wholesale change to the 2010 guidelines because we --
3 in our view, you know the 2010 guidelines were working
4 fairly well. But we're hoping, and one of the
5 objectives of this review is to sort of make them
6 perhaps more user-friendly, more understandable to
7 parties who are trying to understand how we plan and
8 put forward our projects for review.

9 I think in terms of a, you know, an
10 affordability type of question, you know, that's
11 really kind of more of an RRA focus, or revenue
12 requirements application focussed kind of question
13 that would be best explored in that type of setting.

14 MR. WEAFER: Thank you, that's a fair comment, and I
15 don't intend to debate it, but I just want to try to
16 put some more context to it. I mean, this is one of
17 the tools that the Commission and stakeholders rely on
18 in terms of their ability to scrutinize what Hydro was
19 doing. And with the volume of \$20 billion over the
20 next ten years, there's big numbers involved, that the
21 review will flow through these review guidelines.

22 So what I'm asking, given what I think is a
23 contextual change from 2010 to 2018, where the
24 shareholder has raised the importance of
25 affordability, is there anything in these guidelines
26 that you think approve the ability of the Commission

1 to oversee and the ability of stakeholders,
2 ratepayers, to challenge, potentially, the capital
3 initiatives of Hydro?

4 And I'm thinking the answer may be no,
5 because you don't see that as what this is about, but
6 I'd be curious to hear your thoughts with that
7 context.

8 MR. HARRIS: I think if I understand your question, I
9 think there are things in the 2018 guidelines that we
10 are proposing that will help the Commission review the
11 projects and capital submissions that we make. I
12 think -- you know, specific examples are that we are
13 improving the information in what we call Appendix I,
14 which is a listing of all those projects that we're
15 undertaking or planning to undertake that are over \$5
16 million in value by, you know, sort of providing
17 information that links a project to a capital strategy
18 or a plan, and so that that can be reviewed in the
19 context of Hydro's broader planning perspectives.
20 And we also are providing information, I think, on you
21 know like a keeping a naming convention. So that we
22 see those projects as they move from filing to filing,
23 we can keep track of those things. And we're also
24 identifying whether a project is a part of a program.
25 So to a concern raised earlier that, you
26 know, we're not trying to, you know, sort of -- we're

1 trying to improve the sort of transparency of those
2 projects as they might pertain to a program by showing
3 you what's in a program, so that the Commission has a
4 view to see what's the sort of overall cost of that
5 program over time as opposed to just a single project
6 that might occur and it doesn't cross a threshold and
7 therefore it may not be reviewed.

8 So, these are the sort of things I think
9 that can help the Commission make those determinations
10 about our capital program over -- you know, that we
11 put forward and help make those determinations, that
12 the projects we are asking for are in the public
13 interest.

14 MR. WEAFER: That's helpful. So what I'm hearing, it is
15 part of the objective of Hydro to make sure that these
16 review guidelines do assist the Commission in trying
17 to respond to that policy direction. There's a common
18 interest of Hydro, the Commission and ratepayers to
19 try and tackle this issue, and so I take it from last
20 response that that is a part of the objective of the
21 amendments and that is a proper objective for these
22 guidelines.

23 **Proceeding Time 10:59 a.m. T21**

24 MR. HARRIS: Yeah, I believe so, yes.

25 MR. WEAFER: Thank you. Just a couple of questions
26 following up on the presentation this morning. Page

1 23, and this is one of the revisions in the updated
2 proposal. And I just -- this is the fourth bullet
3 point, "Corrected phrase in Initial Proposal that
4 programs are 'Usually and financially approved with a
5 single business case'." And has been revised, "Most
6 programs are not financially approved with a single
7 business case."

8 Can you explain that to me? Because I
9 would've assumed these were in single business case,
10 so this just sounded odd to me.

11 MR. HARRIS: Yeah. I think I'D probably ask Alicia to
12 address that question. Thanks.

13 MS. PINKSEN: So this is Alicia Pinksen from BC Hydro.
14 So the key point here that we want to clarify is that
15 programs of projects often stretch over a long
16 duration of time and they can actually be flexible in
17 scope. So it gives us an ability to reprioritize
18 projects within the programs as our capital portfolio
19 is changing. And so as a result it actually makes
20 sense in many cases to fund each project individually
21 rather than committing the overall program in a single
22 business case.

23 MR. WEAFER: We'll take that away. Thank you.

24 The other question on the slides this
25 morning was just turning to the Schedule J, I think it
26 was page 17. Can you just help me, what will be in

1 Appendix J? Can you just clarify that?

2 MR. HARRIS: Yeah.

3 MR. WEAFER: Which projects or programs will be in
4 Appendix J?

5 MR. HARRIS: Which projects or programs? Okay, I think
6 maybe Edward can help us out on this one. But just
7 before we go there I think, you know, Appendix J is
8 kind of what we're thinking about in terms of Appendix
9 D to our filing, so that's the kind of information
10 that will be provided there. But I think Edward can
11 give us sort of some examples of projects that would
12 be included in Appendix J.

13 MR. HABOLY: Edward Haboly here from BC Hydro. So
14 Appendix J is what we've filed historically in the RRA
15 and we've referenced that on -- in our guidelines
16 within Appendix D. So that's -- what we followed in
17 the past is any project with a forecast cost of 20
18 million and over would be included in Appendix J. And
19 there would be a description of the project, the
20 general scope, and timing.

21 MR. WEAFER: And, sorry, and the financial threshold
22 would be?

23 MR. HABOLY: What we filed in the past it has been 20
24 million.

25 MR. WEAFER: And that is proposed to be continued with
26 that threshold?

1 MR. HABOLY: I'm sorry, can you --

2 MR. WEAFER: And that's the threshold to go forward as
3 well, 20 million?

4 MR. HABOLY: Yeah. Well, I mean, currently and as
5 recently as the F2017 to 2019 revenue requirements
6 application, the threshold for Appendix J has been a
7 \$20 million threshold. So any project above that is
8 listed in Appendix J or has its own description within
9 Appendix J.

10 MR. HIGGINS: To the extent in something, you know, in
11 the future that that threshold might change, it
12 wouldn't really impact our capital -- our 2018 capital
13 filing proposal. It's really just sort of a
14 materiality limit for what goes into a revenue
15 requirement application. So it could change in the
16 further I guess is what I'm saying.

17 MR. WEAFER: At this point 20 million is the proposed
18 number?

19 MR. HIGGINS: But right -- at this point we've been using
20 20 million, that's correct.

21 MR. WEAFER: I do have another threshold question and
22 this may involve a little bit of work so I'll take you
23 to page 37 of your initial proposal?

24 **Proceeding Time 11:08 a.m. T22**

25 This would be an undertaking that I hope is
26 acceptable. The objective is to try and get an

1 understanding of what we're missing, what is falling
2 under these proposal thresholds. Just let me know
3 when you're there. It's Table 5.3.

4 MR. HARRIS: Sure, okay.

5 MR. WEAFER: And so the thresholds -- we've asked -- the
6 CEC would ask if you can run this table with lower
7 thresholds, and I'll give you the amounts for the
8 record, and so generation at 50 million, transition at
9 50 million, distribution at 25 million, buildings at
10 25 million, and information technology at 10 million.
11 So we're looking at projects that are between those
12 two thresholds to see what is falling outside of
13 review under your proposed thresholds on a go-forward
14 basis. And if you could, as you did following this
15 table, this project, as you have in the other -- for
16 the -- goes over that threshold. Does that make
17 sense?

18 **INFORMATION REQUEST**

19 MR. HARRIS: Yeah. I think if I'm understanding your
20 request, you're sort of suggesting that we lower our
21 general proposed thresholds, as you've outlined them.
22 And then you would sort of like a count of the number
23 of projects that then might be filed as a separate
24 application within each of those categories.

25 MR. WEAFER: A bit more detail, actually -- the schedule
26 which projects are -- I assume you've also got a

1 schedule listing the names of those projects and a
2 description of those projects. Because they obviously
3 are -- I'm assuming it's information you have. I'm
4 just looking to get the -- those that would be above
5 those threshold numbers I've given but below the ones
6 that you've identified. In order to give us a better
7 sense of how many there are, and what the nature of it
8 is.

9 MR. HARRIS: Yeah. If you could just give me a moment,
10 thanks, Chris.

11 MR. WEAFER: Of course.

12 MR. HARRIS: Yeah. Additional, yeah. Okay.

13 Okay. Thinking about -- well, power
14 systems. We're thinking that, you know, we're
15 probably, you know, subject to check, and thinking
16 about that, we think on a power system basis, so that
17 would be between generation, transmission,
18 distribution, and safety, and am safety, we think
19 there would probably be about another 21 projects that
20 would be added to what's currently listed, of the 23.

21 I don't know about how many additional
22 buildings or IT projects that might generate. But we
23 might be able to get a sense from Martin on buildings
24 as to how many that might add.

25 MR. WEAFER: And I'm happy to have this taken away as an
26 undertaking. That would probably be a better way to

1 do it.

2 MR. HARRIS: Okay. You know, we could address it when we
3 file the revised proposal.

4 MR. WEAFER: Is that --

5 MR. HARRIS: So, we could add the numbers there.

6 MR. WEAFER: That would be fine. You had jumped over to
7 5.4 and power systems as well, and I haven't
8 identified those ones. I did identify 5.3, but we're
9 Table 5.4, if you could do the same thing, the power
10 system investment using a \$50 million threshold
11 building to 25, and information technology for 10.

12 MR. HARRIS: Right. Okay.

13 MR. WEAFER: And that would be fine filing as part of
14 your --

15 MR. HARRIS: Yes, yeah.

16 MR. WEAFER: -- updated list. We're really just looking
17 at what's falling below the threshold on material.

18 MR. HARRIS: Sure. Okay.

19 MR. WEAFER: That would be appreciated.

20 MR. HARRIS: All right.

21 MR. WEAFER: Thank you. I'm being reminded by Mr. Gregg,
22 we're looking for also the details in that, that are
23 provided in 5.5, with respect to the projects.

24 **Proceeding Time 11:13 a.m. T23**

25 MR. HARRIS: Sorry, and you would like some --

26 MR. WEAFER: The details on the project that already is

1 at Table 5.5

2 MR. HARRIS: When you say details, I mean --

3 MR. WEAFER: Looking at the way those are set out and
4 identified.

5 MR. HARRIS: Mm-hmm.

6 MR. WEAFER: A similar identification of these other
7 projects that fall between the band of our proposed
8 threshold and your threshold.

9 MR. HARRIS: Oh, I see. So you -- not just the number of
10 projects but you'd also like some -- the details of
11 what those projects might be, like their names and why
12 --

13 MR. WEAFER: Similar to --

14 MR. HARRIS: So similar to the information included in
15 Table 5.5.

16 MR. WEAFER: Precisely, precisely.

17 MR. HARRIS: Okay, okay.

18 MR. WEAFER: Thank you. Moving on from that, and
19 following up on CEC IRs, one of the issues that we've
20 been wrestling with is cost/benefit analysis of the
21 project, what would happen with the commercial sector
22 versus in the monopoly sector for BC Hydro. In
23 response to CEC 1.14.2, the response is, is BC Hydro's
24 risk based projects are not justified by a financial
25 cost/benefit analysis. I don't think you need to go
26 there, that's the simple concept that was the

1 response. Within -- in 1.71, CEC 1.71, in the
2 response, BC Hydro indicated most of BC Hydro's
3 capital investments are risk based.

4 So I take from that that most of your
5 capital investments aren't justified by a financial
6 cost/benefit analysis, is that a proper conclusion to
7 draw?

8 MR. HARRIS: Mike, I think -- if I could turn this over
9 to Mike Wynne, that might be helpful.

10 MR. WYNNE: All right. Hello? It's Mike Wynne, director
11 of finance.

12 So we do have a business case for projects
13 and they do go through a vigorous financial review,
14 including all the financial authorities that exist at
15 BC Hydro, but -- if there's an NPV analysis that is
16 indeed conducted. But I think what your question is
17 is not similar to will there will be revenue from it,
18 it's more of whether or not it is the right solution
19 based on all the different attributes that are out
20 there. And out planners do go through that exercise,
21 a comprehensive exercise and review to determine the
22 best solution.

23 MR. WEAFER: The follow-up part of the response of 1.71
24 refers to the enterprise-wide investment framework
25 assesses risk based capital expenditures, based on BC
26 Hydro's corporate risk matrix. So is that part and

1 parcel of that analysis that you're talking about,
2 this corporate risk matrix?

3 MR. KUMAR: Ajay Kumar, BC Hydro. The corporate risk
4 matrix that you you're referring to actually used to
5 evaluating the risk ranking of our capital projects
6 and programs that become part of the capital plan. So
7 that framework actually allows us to optimize the
8 capital plan based on the risk ranking that we
9 evaluate for each project and program. And what
10 Michael was talking about was the evaluation of the
11 different alternatives within those projects that have
12 to be evaluated based on the financial and the NPV
13 analysis. So the prioritization of the capital plan
14 is based on the risk framework, but the different
15 alternatives that are evaluated within those projects
16 we use the financial analysis that Michael was
17 mentioning.

18 MR. WEAFER: Is that corporate risk matrix on the record
19 in the proceeding? Is that a document that's been
20 produced?

21 MR. KUMAR: It is. It was actually submitted as part of
22 the last revenue requirement application. BC Hydro
23 provided an overview of the capital planning process,
24 including the risk framework that we use for
25 prioritization of our capital programs.

26 MR. WEAFER: So in the RRA, but it's not in the record in

1 this proceeding?

2 MR. HARRIS: Not that I'm aware of. No, I don't believe
3 it is.

4 MR. WEAFER: Can we have that filed?

5 MR. BYSTROM: I just don't see the need to file it this
6 proceeding, Chris. It's on the record in the RRA and
7 that seems the right place for it, frankly, in terms
8 of inquiry.

9 MR. WEAFER: What we're trying to assess from the
10 ratepayer's perspective, is we look at the
11 backstopping of this review document is what does BC
12 Hydro actually do as part of the review that gives
13 ratepayers comfort that they are doing proper risk
14 analysis that we can take comfort when they file the
15 projects. That has occurred, so I don't see any down
16 side or problem with having it on the table in this
17 process, when we're trying to review a policy review
18 guideline.

19 So, are you saying we can refer to it
20 because it is on the RRA? Or are we saying we should
21 be ignoring it here?

22 **Proceeding Time 11:17 a.m. T24**

23 MR. BYSTROM: Just in terms of your information, you have
24 it already in the RRA. I'm just -- essentially this
25 process is about processes. And your level of
26 inquiry, it seems to be an RRA-type inquiry about, how

1 do you prioritize your capital issues, what to do,
2 which just seems like a step removed from what we're
3 doing here.

4 MR. WEAFER: But that is the process. We're trying to
5 understand the process that goes into what you're
6 asking us to support, in terms of review guidelines.
7 We don't understand the process. It's very difficult
8 to say the guidelines are appropriate.

9 We're not challenging a specific project
10 here. We're trying to understand what processes
11 you're asking us to rely on that support these review
12 guidelines.

13 MR. BYSTROM: So, I mean, in terms of your level of
14 understanding? It's on the record in the RRA. You
15 have it. I'm not trying to withhold information but
16 if we start filing every single thing that was filed
17 in the RRA, this document is going to be thousands of
18 pages long. It's just not practical. Because that's
19 not the only relevant document to your line of
20 inquiry. There's -- you know, look at the RRA. Look
21 at all the questions that were asked there. So, I'm
22 not trying to unnecessarily circumscribe this
23 proceeding, I'm just trying to be practical here. We
24 did have an RRA where all those things were explored.

25 MR. WEAFER: This is the only document we're asking for.

26 MR. BYSTROM: We can consider it.

1 MR. WEAFER: It's identified that it's -- it's identified
2 in an IR response, we want to understand what it is --

3 MR. BYSTROM: So you can read it in the -- all right,
4 we'll take it away, Chris. How about we take it away,
5 and we can consider that when we put together a
6 revised proposal? Or the Commission maybe wants to
7 speak to it now.

8 MR. WEAFER: Mr. Austin wishes to speak to it.

9 MR. AUSTIN: Since this is a workshop, then it's
10 relatively informal. I'd like to jump in and support
11 Chris, because earlier today I referred to our
12 Information Request 1.8 and BC Hydro in response said
13 "BC Hydro does have an enterprise-wide investment
14 framework which is applied by the business units to
15 identify and assist and rank risk- and value-driven
16 capital expenditures in a consistent way." So, if I
17 understand Chris, and in terms of our own
18 understanding, we're just trying to understand how BC
19 Hydro goes about doing that. And as Chris has just
20 discovered, that there is this corporate risk matrix,
21 so as far as Clean Energy Association of B.C. is
22 concerned, it's all part of trying to sort out this
23 enterprise-wide investment framework that BC Hydro
24 applies, and the guidelines are the way of allowing
25 third parties and the Commission to understand this
26 enterprise-wide investment framework amongst many

1 other things.

2 MR. BYSTROM: Just two comments. One, this process isn't
3 about allowing -- providing an understanding to the
4 intervenors about how -- about the investment risk
5 framework. That's not what this process is about.
6 Two, you both -- all the parties in this room were
7 involved in the revenue requirements proceeding, and
8 so that document is on the record there, it's on the
9 Commission's website. You probably reviewed it in
10 that proceeding.

11 So it's there to assist your understanding.
12 Again, I'm just trying to be practical in terms of the
13 level of information in the revised filing, trying to
14 keep it focused on the scope that the Commission has
15 approved, and keeping it reasonable. Again, not
16 trying to withhold information. It is available on
17 the public record for your review.

18 MR. QUAIL: I don't understand the request that Chris has
19 made to the -- that it be incorporated into the
20 document. That it be filed as a part of this
21 proceeding, and we've spent the last five minutes
22 saying why we don't want to file something that's
23 already on the public record. Can we just land it as
24 well on the record here? Somebody wants to make
25 reference to it, they can. I just don't understand.
26 Why the hell wouldn't you just file the thing? I

1 | don't understand.

2 THE CHAIRPERSON: I think that it would be okay for BC
3 Hydro to file it, but I do agree with Mr. Bystrom that
4 there are thousands and thousands of pages related to
5 capital in the revenue requirement application, and it
6 would not be practical to file all of that
7 information. In this case, we request that BC Hydro
8 file it too, so that we can move on.

Proceeding Time 11:17 a.m. T25

10 MR. BYSTROM: Sure. Fair enough. Done.

11 MR. WEAFER: Mr. Bystrom's point, I just want to confirm
12 that is acceptable to panel, that if we're going to
13 refer to something in the RRA that's acceptable to the
14 panel. Because different panels have taken different
15 views on that and I just want to make sure that's
16 exactly what you said.

17 THE CHAIRPERSON: In this circumstance I think it's
18 appropriate to refer to information in the revenue
19 requirement application.

20 MR. WEAFER: Thank you very much. Those are our
21 questions, thank you.

22 MR. BYSTROM: Thank you.

23 MR. STALLARD: Hi, Phil Stallard, BCUC staff. First
24 couple of questions referring to just some clarity
25 around new service area. And let me first refer you
26 to BCSEA 1.8.1. I may be able to summarize basically

1 if you need to just catch up on that.

2 The question highlights that the 2010
3 guidelines say under paragraph 1, heading 3 that BC
4 Hydro will follow the CPCN with respect to BC Hydro's
5 responsible system required to serve a new service
6 area; eg. not part of the existing integrated system
7 and that there will be no expenditure threshold after
8 these filings.

9 And I note that in BC Hydro's response to
10 this question it's stated that the provision is not
11 reflected in the 2018 guidelines as it's a requirement
12 of Section 45.1 of the CECA.

13 But just wanted to get further clarity on
14 that just to ensure that we're interpreting this
15 correctly, that -- whether you could explain that for
16 new service area that isn't part of the existing
17 integrated system, does the 2018 proposal then --
18 should that be interpreted as saying that the major
19 project thresholds would not apply under that
20 circumstance or if otherwise if you could please
21 explain further on that.

22 MR. BYSTROM: So I think the question is about, so this
23 is for a project that's not an extension but a new
24 public utility plant or system.

25 MR. STALLARD: That's correct, yeah.

26 MR. BYSTROM: And I think in that case the way we put

1 together the guidelines is that the thresholds
2 wouldn't apply to that. If it's actually a new
3 system, the *Act* requires a CPCN. So we'd have to --
4 subject to any direction from the Commission to
5 proceed otherwise, then it would require a CPCN.

6 MR. STALLARD: Okay, thank you. That helps to clarify
7 that point. And just building upon that, around new
8 service areas, in response to a BCUC question, BC
9 Hydro submitted it understands that for each of the
10 categories of capital projects we are referring to
11 have been subcategorized as power systems, buildings,
12 IT or other, would be classified as public utility
13 plant or system, and was just interested in BC Hydro's
14 view whether they are examples of -- aside from power
15 systems, I'm looking at perhaps IT or buildings or
16 other, that would be considered by BC Hydro as a new
17 utility plant or system, whether you could give any
18 examples of how that would be the case.

19 MR. HARRIS: Sorry, maybe I don't quite understand your
20 question. If you could maybe repeat it.

21 MR. STALLARD: Yes, so absolutely I will rephrase. So
22 again, it's building upon the question where we were
23 referring to a new service area, and we understand
24 conceptually how that's referred to as power systems,
25 whether there are any examples of IT projects or
26 building projects that would also fall under the

classification of new service area as opposed to an extension or otherwise.

3 MR. HARRIS: I don't think so. I mean, typically a
4 building or an IT system would be implemented or
5 constructed to support our existing footprint, I
6 guess, is one way of putting it. As opposed to
7 considering they might be an entirely sort of new
8 system or separate from the existing company, the
9 existing utility.

10 MR. STALLARD: Okay, thank you. And if I could move
11 onto look at the revenue requirements. I know in
12 slide 14 of BC Hydro's presentation where we were
13 referring to capital conditions and that under BC
14 Hydro's proposal as referred to, all projects will be
15 reviewed in an RRA. And I was just hoping you'd be
16 able to expand or elaborate upon a statement within
17 that slide as to why BC Hydro considers that it's
18 appropriate to focus on capital additions rather than
19 is within our role in the proceeding.

Proceeding Time 11:27 a.m. T26

21 MR. HARRIS: Yeah. I think, you know, generally we sort
22 of feel that we -- capital expenditures are
23 expenditures that are identified, and they're going
24 over, you know, one test period into a future test
25 period. And so, you know, reviewing them now in the
26 current test period, when they may come into become

1 capital additions in another test period, probably
2 results in sort of a duplication of effort. And in
3 our view, it would probably be more efficient, a more
4 efficient use of review time, to look at project
5 expenditures -- sorry, capital additions as opposed to
6 capital expenditures within a current revenue
7 requirement proceeding.

8 MR. STALLARD: And you just -- and quickly following up
9 on that, would there be any sort of unusual
10 circumstances where there might be merit for having to
11 have a review that was done over numerous test periods
12 when the test periods are --

13 MR. HARRIS: There may be.

14 MR. STALLARD: If you do, then it would be helpful. But
15 if not, then --

16 MR. HARRIS: I mean, maybe a very long-lived project
17 might span over several test periods, that -- you
18 know, you would see the expenditures over several test
19 periods but the addition would happen maybe in a
20 second or third or fourth test period. So, I don't
21 necessarily have a specific example off the top of my
22 head right now, but --

23 MR. STALLARD: Thank you. Next question refers to
24 project-specific compliance, fines and reporting. And
25 I appreciate that this has probably been addressed in
26 a number of various questions or IRs from different

1 parties, but if I can sort of hive off in sort of
2 their manner. That projects that -- which ones --
3 once they've reached their in-service date, if you
4 could please explain on your proposal and just the
5 nature of the project-specific reporting that would
6 then follow the in-service date and under what typical
7 time-scale would such findings arise?

8 MR. HARRIS: Yeah, I think that, you know, from our
9 existing practice anyways, we -- we have been filing
10 progress reports up to the point of filing our final
11 report. So even if a project goes into service and
12 sort of gets to substantial completion, and it's
13 brought into service, to the extent that a long period
14 may ensue between the time where it goes into service
15 and it's actually completed, Hydro has continued to
16 make our semi-annual or quarterly progress reports to
17 the Commission on those projects.

18 MR. STALLARD: Yeah. Thank you, that's helpful.
19 And this is just a final sort of detail,
20 specific little question that relates to definitions
21 around property and buildings now. And I note that in
22 response to a BCUC IR, that BC Hydro stated "The
23 property business group effectively would manage
24 expenditures that relate to buildings."

25 And if I could perhaps refer you to BCUC
26 1.2.1, you'd need to refer to a specific safety

1 question.

2 MR. HARRIS: Okay.

3 MR. STALLARD: Thank you. And the question that's been
4 surrounding expenditures by each of the different
5 categories that fall under the guidelines, and the
6 question refers to buildings in particular instance.
7 Whereas the table shows capital expenditures for
8 properties. And again, it's just to ensure that we
9 have clarity as to how we should be using this
10 terminology and where it's going to be following --
11 could you please just explain what is showing some
12 expenditures that refer to buildings or whether there
13 is a differentiation with properties that we'd be
14 interpreting otherwise.

15 MR. HARRIS: I think Martin can help us answer that
16 question.

17 MR. FISH: Thank you. So, Martin Fish, BC Hydro
18 Properties. So, Properties looks after the building
19 and maintenance of the field buildings, and the
20 corporate headquarters. They're often -- and those
21 would be included in the table in 1.2.2.1. If there
22 are buildings that are constructed as a part of Power
23 System project, such as a substation building, and
24 they would be included in that project as part of the
25 power system project. They are not managed by a
26 Properties group, so they'd be in the other lines on

1 this table.

Proceeding Time 11:33 a.m. T27

3 MR. STALLARD: Thank you. And, sorry, if you could just
4 also then just clarify how that relates then to the
5 threshold for buildings? Where you referring to
6 buildings that would perhaps fall -- that would be
7 tied to a project, would that fall under the
8 thresholds that would be under the overall project or
9 is there a specific building level threshold that
10 would fall into the element of it?

11 MR. FISH: So the 50 million proposed for buildings would
12 apply to projects where the purpose of the project is
13 to construct a building. If the purpose of the
14 project is to add to the power system that included a
15 component that involved a building, that building cost
16 would be included in the total cost of the project and
17 subject to the threshold, in this case power system
18 projects.

19 MR. STALLARD: Thank you very much. That concludes our
20 question.

21 THE CHAIRPERSON: Okay, thank you. Is there any follow-
22 up questions?

23 MR. AUSTIN: This is a question in relation to the
24 process for today. Are there going to be subsequent
25 presentations by BC Hydro or is this the only
26 presentation?

1 THE CHAIRPERSON: This is the only presentation, but we
2 have yet -- we have a procedural conference coming up
3 to discuss how we will continue with this proceeding.

4 MR. AUSTIN: Well, I guess it was my misunderstand. I'd
5 like to ask some additional questions, the ones I
6 posed at the beginning of this process when I did the
7 introduction on behalf of the Clean Energy Association
8 of BC.

9 THE CHAIRPERSON: You will have an opportunity to share
10 any views with BC Hydro on the initial proposal so
11 that BC Hydro can consider that in their final
12 proposal.

13 MR. AUSTIN: So that's coming up today?

14 THE CHAIRPERSON: Yes.

15 MR. AUSTIN: Okay, thank you.

16 THE CHAIRPERSON: So I'm just at this time asking if
17 there's any follow-up questions before we move on to
18 that. And we will -- if there are no follow-up
19 questions, then I will ask my fellow panel members if
20 they have any questions.

21 Okay. Richard?

22 COMMISSIONER MASON: I wonder if I could ask a couple of
23 questions around this topic of programs and projects.
24 I thought it was quite a useful illustrative example
25 of the Chinatown moving distribution cables
26 underground. So -- and I think you made a comment to

1 do with "A project needs to have least some measurable
2 benefit of its own." Could you make that -- can I
3 confirm that you made that comment, firstly?

4 MS. PINKSEN: Yes.

5 COMMISSIONER MASON: Thanks. So is that -- do I
6 understand that to mean it's like some sense of a
7 definition of the minimum size of a project, is that
8 how I should interpret that comment? That you can't
9 shrink a project smaller so that it doesn't have any
10 measurable benefits. There's some notion that a
11 project must at least have some identifiable benefit
12 to be a project, that's like a minimum size, is that
13 how I should interpret that?

14 MS. PINKSEN: Yes. I think we would have to refer to the
15 definition in the initial proposal in section 5.2.2, I
16 believe. That's where we describe the boundaries of a
17 project.

18 COMMISSIONER MASON: But that's sort of the lower
19 boundary, right?

20 MS. PINKSEN: Yes.

21 COMMISSIONER MASON: Okay. I don't think you mentioned
22 anything about an upper boundary. Is there such a
23 thing as an upper boundary for a project itself?

24 MS. PINKSEN: I don't think --

25 COMMISSIONER MASON: Okay, it's not a trick question.

26 MS. PINKSEN: Okay.

1 COMMISSIONER MASON: I didn't expect there to be, but I
2 just thought I'd ask the question. So, okay, so you
3 used the example of a geographical area, Chinatown,
4 and there's -- hypothetically you're taking a block by
5 block approach and one -- the moving of cables
6 underground in one block you have described as a
7 project because it has some measurable benefit of its
8 own, yes?

9 MS. PINKSEN: Yes.

10 COMMISSIONER MASON: So I think I could hypothesize that
11 you might have a three-year RRA where there would be
12 three such projects, maybe one a year, something like
13 that. So we might see three different projects
14 referring to three different blocks of Chinatown, yes?

15 MS. PINKSEN: Yes. Yes, you could.

16 **Proceeding Time 11:38 a.m. T28**

17 COMMISSIONER MASON: Right. And I think part of your
18 proposal is that for us to understand better the
19 nature of a program, we would see these projects as
20 being linked through some numbering system or
21 something like that, yeah, so we could at least see
22 that these projects are related.

23 MS. PINKSEN: That's right. We'd refer to the overall
24 program strategy or overall plan that links these
25 projects.

26 COMMISSIONER MASON: Okay, but in a three-year RRA, of

1 course, you only see the projects that would occur in
2 those three years. So let's say it was actually a
3 ten-year program and you were doing ten blocks. The
4 subsequent seven that are beyond that first three, we
5 wouldn't actually see in that RRA, would we?

6 MS. PINKSEN: The projects themselves wouldn't be
7 included on Appendix I, but they would be referred to
8 in the program plan or strategy.

9 COMMISSIONER MASON: Okay, thank you. So that means we
10 would see separately, then, the program that might
11 include the ten blocks, even though only three of them
12 were being done in the next RRA.

13 MS. PINKSEN: Correct.

14 MR. KUMAR: I think one thing to keep in mind is the
15 strategy that Alicia is talking about, it might give
16 an overview of the overall strategy that we are
17 following towards it, but it may not have all the cost
18 estimates and the timelines associated with it,
19 because the projects that are far away in the ten-year
20 period are not as defined in terms of the project
21 maturity as the ones before.

22 So the strategy outlines the approach that
23 BC Hydro is taking towards the redevelopment in a
24 particular area or a substation or a generation
25 station. But it doesn't have all the necessary
26 requirements for it to become a project that can be

1 defined in terms of the deliverables and the timelines
2 of the cost.

3 COMMISSIONER MASON: Okay, so that was going to be my
4 next area was, so if you have in mind a ten-year
5 program for moving cables underground in ten blocks,
6 and you know that these ten are going to be done, but
7 only three of them in the next RRA, are we going to
8 see a program description, definition, whatever, with
9 perhaps a less accurate estimate, but at least an
10 estimate of the total program cost?

11 MR. HARRIS: Yes, and I think we've stated in our
12 proposal that those further out projects have kind of
13 a conceptual placeholder associated with them. I
14 don't -- you know, so there is usually some
15 rudimentary forecast at least associated with those
16 further out projects. And you know, subject to
17 anything else that Ajay might want to add, so.

18 MS. PINKSEN: If I could just add one thing. I think,
19 too, when we look at these long duration programs, it
20 is possible that as a result of changing needs on the
21 system and our resource and financial constraints, we
22 could potentially change that program over time, and
23 that uncertainty on the scope is important to keep in
24 mind outside of the test period.

25 COMMISSIONER MASON: So my final question then is to do
26 with the thresholds. If each individual project is

1 \$10 million, so it's below the reporting threshold,
2 but you intend to do ten of them, which is a hundred
3 million dollars, which is perhaps equal to or above
4 your power system threshold, is the program above or
5 below the threshold, and how would you treat each
6 individual project with regards to whether it's above
7 or below the threshold?

8 MS. PINKSEN: So BC Hydro's view is that we would
9 consider each individual project for the reasons
10 stated, that those projects provide stand-alone
11 benefits, that there is uncertainty on the overall
12 scope of the program, and that typically these
13 individual projects are low risk and low complexity.

14 COMMISSIONER MASON: Thank you.

15 THE CHAIRPERSON: Okay, I have one question and it has
16 to do with testing additions in the revenue
17 requirement application. And combined with
18 considering the prudence of execution whereby the
19 Commission should wait until the Board of Directors
20 has approved the final project report.

21 **Proceeding Time 11:43 a.m. T29**
22 And yet we're to be approving additions in the test
23 period and that report might come after the revenue
24 requirement application. Does that -- if there is a
25 difference that results from a subsequent decision
26 that impacts amortization, does that get picked up in

the existing regulatory account if it happens outside
the test period?

3 MR. HARRIS: I'm just looking towards my colleagues here.
4 So.

5 MR. JAMES: Could you run through that scenario again,
6 Commissioner Keilty?

7 THE CHAIRPERSON: So if we're approving -- we're testing
8 additions in the revenue requirement, but the
9 Commission may have questions about prudence of
10 execution, which the Commission isn't able to test
11 until after the Board of Directors approves the final
12 project report, which may happen outside of the test
13 period. Does the actual amortization that might
14 result from that subsequent decision get adjusted
15 through the regulatory account or what happens given
16 the time delay for approval of the final project
17 report?

18 MR. JAMES: So I'm thinking of a situation where we file
19 say a two- or three-year revenue requirements
20 application. We are proposing that a project is going
21 to come into service halfway through that test period,
22 so say in the end of year two. You won't have had a
23 chance to see the final report for that addition
24 because it hasn't been completed and the board hasn't
25 issued it.

26 So then you opportunity to do the -- I

1 guess what I would call the prudency review of that
2 capital addition would happen when we file the next
3 RRA and you -- the Commission would then have an
4 ability to -- if it decided some of those costs were
5 imprudently incurred would have the ability then to
6 reduce the amortization charges in that following test
7 period for that project going forward, is the way I
8 would understand how it would work. I'm looking at my
9 counsel now to see if he agrees.

10 MR. BYSTROM: Sounds right to me.

11 MR. JAMES: Okay. And so the existing regulatory account
12 would pick up -- it may not pick up the difference
13 from the period of time when the capital project came
14 into service and the start of the next test period.
15 I'd have to think that through. I'm not sure if it
16 would pick that up or not. I guess it could pick it
17 up retroactively through some sort of adjustment to
18 the amortization period in the first year of the next
19 test period. Not quite sure how that would work out.

20 THE CHAIRPERSON: Okay, but there would still be an
21 opportunity to consider the implications even though
22 the period has passed?

23 MR. JAMES: Yeah, absolutely. That prudency review would
24 take place in the following test period is the way I
25 would see it, yeah.

26 THE CHAIRPERSON: Okay.

1 MR. JAMES: For any of the projects that came into
2 service during the previous test period that the
3 Commission had not had a chance to review.

4 THE CHAIRPERSON: Okay, thank you. I think we will break
5 for lunch and then participants will have an
6 opportunity to give their views on the initial
7 proposal.

8 We will come back at 1 o'clock.

9 **(PROCEEDINGS ADJOURNED AT 11:47 A.M.)**

10 **(PROCEEDINGS RESUMED AT 1:02 P.M.)** T30/31

11 THE CHAIRPERSON: Good afternoon. So, now we are going
12 to have the comments and views of participants,
13 starting in the same order and as we did the
14 introduction. And then questions.

15 MR. WEIMER: James Weimer, Complete Energy. A few
16 general observations, basically.

17 First off, on the prospect of reviewing
18 capital, it seems to me that there is a fundamental
19 dichotomy that we always keep running into, is that if
20 you're looking at test, (inaudible) the capital
21 expenditures that are taking place through this test
22 period don't actually affect the revenue requirements
23 in the test period. So they get excluded or whatever.
24 But the capital expenditures that actually do look
25 back to revenues from the test period, took place
26 earlier, before the test period. So that they get

1 excluded as well. Because there's nothing you can do
2 about some of the consequences of those, this prospect
3 of prudency review and so on. Very difficult to see
4 how that can be handled, for projects originally it
5 was supposed to cost a billion dollars and it ends up
6 costing 1 and a half, this has to do with the extra
7 half, not prudent or what happened. I mean, anyway,
8 that's one observation, that the revenue requirements,
9 is very difficult place to try and judge capital.

10 And the other observation is that we need
11 capital projects one at a time, never gives us the big
12 picture. You're always looking narrowly at one single
13 project, be it 10 million or 50 million or 100
14 million, and it always looks like it supports itself
15 internally. But you never actually see the larger
16 picture, which would also involve you in issues of
17 capital constraints. What is the whole program
18 costing you? Right now BC Hydro, its capital
19 constraint, or put it more accurately, its rate
20 increase constraint. So, and in the top-down ruling
21 that (inaudible). You can add to your rates by 1
22 percent or 2 percent or 3 percent or 0 percent, and
23 then maybe you're going to have to try to live within
24 that. So they juggle everything around, and by
25 judiciously using the rate-smoothing account, which
26 should pretty well put anything the government directs

1 us to do.

2 And the other observations that I have had
3 to do with the general focus in the entire proposal.
4 I see -- and I'm relating this back to what a private
5 sector company would be detracted also in coming up
6 with its capital investment choices.

7 The focus of this entire proposal is on
8 spending, spending capital. First of all to ensure
9 safety. And reliability. And we will know and argue
10 with things that enhance the safety and impair the
11 reliability of the system.

12 But we've been spending since 2008 and \$2
13 billion a year. So \$20 million has gone into the
14 system to date, and another \$20 billion is slated to
15 go in the next decade. And on top of that, there will
16 be Site C, and Waneta. It's over \$50 million.

17 The company started out in the beginning of
18 2008 with about \$10 billion. So, capital assets
19 employed. And we're adding \$50 billion over two
20 decades to it, and is it really possible that that is
21 all required in order to enhance the reliability or
22 the safety of the system? Without growing? Because
23 in the last ten years, we haven't grown the load by a
24 megawatt hour. And all that capital has been spent.

25 What I don't see, for the third thing that
26 is prioritized here, is to meet anticipated customer

1 demand, which I suppose throws us back at forecasting
2 the load. And then seeing whether we need to add
3 anything more. But I don't see anything that a
4 private sector customer would be trying to do, which
5 is spend capital to build the business, to increase
6 sales, to get more customers. Because the only way
7 that BC Hydro is going to get its rates to go down is
8 by adding more customers, more load. Without
9 expanding all its costs. So they're looking at how to
10 spend the capital in the most efficient way, to serve
11 new loads, without having to add a lot of fixed costs.
12 So, you've already got a huge, huge infrastructure
13 there.

14 There are several other objectives that
15 need to be concerned, and I don't see them mentioned
16 in there. And one would be to facilitate economic
17 development in the province. And that's objectively
18 head back to the '60s and '70s, when we put in all
19 this infrastructure. We've done our purpose. It was
20 done to serve new customers.

21 The second objective is to facilitate our
22 fight against climate change. That is, we need an
23 active (inaudible) of electrifying other energy uses
24 to reduce greenhouses gases.

25 **Proceeding Time 1:08 p.m. T32**

26 So I have three good objectives there. One

1 is to reduce rates by increasing the number of
2 megawatt hours we actually sell. And the second one
3 is reduce greenhouse gases to encourage economic
4 development, but I don't see the mention of that
5 anywhere in the capital program. It's addressed
6 safety, reliability, and meeting the load forecast,
7 but the load forecast isn't proactive, it's kind of
8 responsive to what they're, you know, projecting from
9 here. They aren't actually going out and trying to
10 spend money to get more business, and I think they
11 need to do that. That's about the summation of my --

12 MR. AUSTIN: In relation to other comments of the Clean
13 Energy Association of BC, the reason that we're
14 raising these issues in the context of this review is
15 because if they're not raised at the analytical level
16 within BC Hydro, they don't get raised at all. So in
17 other words, it's time for us to just quit talking
18 about the process of capital expenditures and how
19 they're undertaken and get down to the evaluation
20 level. And this proposal does not move it down to the
21 evaluation level. So what happens is, as Mr. Weimer
22 says, by the time we get to revenue requirements
23 review process it's too late.

24 So our recommendation to the Commission is
25 to start looking at the next level down, meaning the
26 analytical level -- or not even next level down, it's

1 a parallel level or above level, and saying how is BC
2 Hydro undertaking its financial analysis before it
3 gets to the Commission? Because we have so many
4 examples of people asking questions at the revenue
5 requirements review application we don't even know
6 whether that's going to continue if we go to
7 performance-based rate making. And there are no
8 answers.

9 Because from the Clean Energy Association
10 of BC's perspective we're always asking how do you do
11 your analysis? Why did you decide to spend your money
12 on X and not Y? And that's why in our information
13 request 1.1, which I talked about twice today, we want
14 to know how this enterprise-wide investment framework
15 takes into account the need for the company to make
16 money? And maybe we can get some answers from BC
17 Hydro today, but that's what we're looking for.

18 And the second information request that
19 feeds into that is our information request 1.5 it
20 says, how is the target debt to equity ratio of 60/40
21 used to rank and prioritize projects and a reasonable
22 return on equity? And the answer back, it's not. The
23 answer is the target debt to equity ratio and the
24 weighted average costs of capital are not directly
25 related to how BC Hydro ranks and prioritizes projects
26 as part of the capital planning and prioritization

1 process.

2 Well, from a private company's perspective
3 it's impossible to rank projects unless there is
4 attention paid to the debt to equity ratio and return
5 on capital.

6 **Proceeding Time 1:12 p.m. T33**

7 And if there's no return on capital, which is now the
8 case, then all accounting has to do is cover its debt
9 cost. Well, that's just a licence to go absolutely
10 full bore into making capital investments. All you
11 have to do is pay your debt cost.

12 So anything that's capital intensive is
13 going to pass that rudimentary threshold, but that's
14 giving us absolutely no idea whatsoever whether that
15 capital investment is superior or inferior to a
16 competing capital investment. And I said in my
17 opening remarks, there are going to be capital
18 investments where you spend ten dollars and get one
19 dollar back, and there are going to be capital
20 investments when you spend one dollar and get ten
21 back.

22 So given the rapid rise in BC Hydro rates
23 and the need to control those as much as possible
24 because of competing influences in the market, the
25 attention has to shift from safety and reliability to
26 return on investment, which is another way of saying

1 making money.

2 So where I'd like to hear from BC Hydro
3 right now is, explain the enterprise-wide investment
4 framework and how it helps BC Hydro pick the
5 investments that will make it the most money.

6 MR. BYSTROM: Chris Bystrom, Counsel for BC Hydro. My
7 understanding was that this is the opportunity for
8 submissions, not further questions. We've had a very
9 similar question from you already earlier. I would
10 just propose that we would take the position under
11 advisement, and consider it, and we can incorporate
12 something addressing your concerns in our revised
13 proposal we're going to file in a couple of weeks'
14 time.

15 THE CHAIRPERSON: Thank you.

16 MR. QUAIL: And with all respect, my understanding was
17 that this was an opportunity for participants to make
18 suggestions for modifications to the draft, not an
19 invitation to present a general critique of BC Hydro
20 and its capital programs. But on that, though, what
21 we're dealing with now doesn't appear to be on the
22 agenda, and I have not come equipped with instructions
23 on specific modifications. My clients are not in a
24 position to offer at this point. I'm assuming that
25 the process will provide that opportunity in due
26 course.

1 MR. ANDREWS: Bill Andrews, B.C. Sustainable Energy
2 Association and Sierra Club B.C. My comments will be
3 limited to the framework of the guidelines proposed in
4 the initial proposal.

5 I note that Hydro has said in its IR
6 responses that the guidelines would be approved by a
7 Commission Order, assuming the Commission approves the
8 content. In my submission, that is an important step
9 forward compared to the status of the 2010 guidelines
10 that was, in a sense, undefined legally.

11 In terms of the impact of the possibility
12 of a PBR proposal from BC Hydro on the CapX guidelines
13 and more generally on the Commission's review of
14 capital expenditures, my submission is that it's
15 appropriate that that be a topic addressed in a PBR
16 application, if there is going to be one.

17 In BCSEA's IRs or questions to BC Hydro, we
18 identified a number of matters of clarity that I don't
19 think we need to go over. The intention is just to
20 make the wording of the accompanying document clear in
21 relation to the content of the guidelines.

22 **Proceeding Time 1:17 p.m. T34**

23 At the risk of going beyond the guidelines
24 themselves, in my submission the compliance reports
25 are a really important part of the transparency of the
26 Commission's review of the capital spending process,

1 and so while it's good as far as it goes that these
2 compliance reports are available on request, I think
3 that the system would be much improved if at least
4 some identified subset of the compliance reports to do
5 with capital spending were routinely available,
6 whether through BC Hydro's website or through the
7 Utilities Commission.

8 I do recognize that in terms of a lot of
9 the capital review occurs within the context of a
10 revenue requirement application and my -- I guess my
11 comment there is that it takes a lot of experience to
12 be able to identify, within a revenue requirement
13 application, specific capital spending issues. You
14 really have to know what you're looking for. There's
15 so much material there that even if you had the time
16 to just read it from A to Z, you would not identify --
17 necessarily identify capital spending issues. You
18 have to have an understanding outside of the framework
19 of the application itself.

20 And I'm not suggesting that I have an
21 answer for how that can be rectified, because Hydro
22 does a lot of spending on a lot of different topics
23 with a lot of details. But it's a challenge. How to
24 be able to pull out of all that -- all of that
25 material the items that are most important.

26 So with that those are my submissions.

1 THE CHAIRPERSON: Thank you.

2 MR. WEAFER: Chris Weafer, Commercial Energy Consumers.

3 I'll start off, I'll reiterate, highlight the concern
4 from ratepayers' perspective that the strawman put
5 forward does not appear to be responsive to the
6 present policy directions of the last two governments
7 and the present government's initial review of BC
8 Hydro. The discussion with the panel is helpful, but
9 renewing concern that the guidelines as proposed are
10 deficient.

11 So turning to a list of comments on the
12 guidelines and I'm going to be referring specifically
13 to the BC Hydro initial proposal and run through a
14 list of specific comments.

15 We also did not come today prepared to give
16 our argument on what it should be, but we're happy to
17 put forward a number of comments as to where we see
18 concerns and as we go through that document at page 7
19 and 2.2.2, addressing system growth, the CEC would
20 comment that addressing system growth covers supply
21 side and questions whether demand side should be in
22 the capital expenditure types.

23 Page 17 of the document, paragraph number
24 3.1.3, which is dealing with BC Hydro's extensive
25 compliance reporting, we would echo Mr. Andrews
26 comment as to whether we could make this more visible

1 to the public and improve the nature of the data to
2 include outcomes that would assess compliance of BC
3 Hydro.

At page 18, 3.2.1 BC Hydro governance and oversight structure. CEC would comment that there needs to be a decision criteria for governance and oversight to properly qualify the process.

At page 18 -- no sorry, further on in terms
of 3.2.1, the cost approvals focus needs to be
complimented with benefits approval and
accountability, as we talked about earlier. The
concern that the cost/benefit analysis is not as
prevalent in BC Hydro as might be appropriate.

Proceeding Time 1:22 p.m. T35

At page 21, 3.3, the CEC also feels that
the RRA is an important process for capital review
because of its continuous nature, and as pointed out
by Mr. Andrews, oftentimes just the volume of the
material we're trying to cover in an RRA, that large
capital matters can get less attention because of the
simple magnitude of the matters we're trying to deal
with with an RRA.

1 At page 24 of Appendix D, the CEC would
2 submit that the template has an adequate detail on
3 benefits and risks modification.

4 At page 26 future projects meeting criteria
5 for CPCN, excluding future projects and full capital
6 additions is in CEC's view, totally ineffective for
7 capital review. Also on page 26, 4.3.1, the
8 effectiveness of risk information and benefits is
9 critical for capital review, and it has been
10 traditionally poor and should be improved upon as part
11 of these new guidelines.

12 Page 29, Section 4.4.2 dealing with the
13 rationale for proposed guidelines, the deferral of, in
14 our view, of future projects to RRA is an extremely
15 poor process for capital review in the CEC's
16 submission.

17 Also still on 4.4.2, capital spending not
18 affecting revenue requirements is a poor criteria for
19 capital review or oversite.

20 And page 31, 5.2.1 in terms of defining
21 projects, the CEC submits that the defining of
22 projects should be based on outcomes and benefits for
23 the future.

24 At page 32, Section 5.2.2 of the boundary
25 around project scope, CEC submits that grouping
26 projects by program or strategy is necessary, as is

evaluations of programs and strategies of significant size. And again, this example that came up in the SAP process were a strategy decision was made which was never really reviewed or commented on by the Commission and resulted in significant subsequent expenditures. So whether they ended up being prudent or not is not the point. That there should have been some understanding of the decision making around the strategy taken in terms of effective regulatory oversite.

Now, page 36, 5.3.1 projects meeting criteria for CPCN or Section 44.2 filing and proposed major project categories and thresholds. In the CEC's submissions, the thresholds are likely too high for adequate oversight and review, and thus our information request or undertaking request this morning.

At page 41, Section 5.4 dealing with information technology projects, any criteria for a major project filing, CEC submits that there needs to be a definition of a benefit for projects, and a complementary benchmark for tracking and accountability.

Page 43, Section 6.1, on clarity of programs, the CEC submits there's a need for definition of effectiveness criteria for management of

those projects which doesn't exist in the guidelines.

At page 46, item 7, the CEC gets the BC
Hydro justification for programs and strategies with
some form of cost/benefit analysis for assessment.

5 Page 49, and 7.4 of the proposed guidelines
6 for strategies, plans and studies, CEC submits that
7 adding identification to the list is inadequate and
8 too late for capital review requirements. And lastly
9 at page 51, the CEC would ask that the annual report
10 also focus on outcomes, not just lists and costs.

Proceeding Time 1:27 p.m. T36

24 THE CHAIRPERSON: Thank you. Mr. Miller?

25 MR. MILLER: No submissions, Madam Chair.

26 THE CHAIRPERSON: Okay I'd like to thank BC Hydro for

1 their presentation today, and all of the participants
2 for your comments and questions and we will see you
3 soon at the procedural conference following BC Hydro's
4 updated proposal. Thank you.

5 **(PROCEEDINGS ADJOURNED AT 1:28 P.M.)**

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10 I HEREBY CERTIFY THAT THE FORGOING
11 is a true and accurate transcript
12 of the proceedings herein, to the
13 best of my skill and ability.

A handwritten signature in black ink, appearing to read "A.B. Lanigan".

14 A.B. Lanigan, Court Reporter

15 May 23rd, 2018

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