

REQUESTOR NAME: **Richard T. Landale BCUC Intervener C-1**

FINAL ARGUMENT

TO: BRITISH COLUMBIA HYDRO & POWER AUTHORITY

DATE: **18 May 2017**

PROJECT NO: **3698907 BCUC**

APPLICATION NAME: BC Hydro Salmon River Diversion Ceasing of Operations Application

1.0 INTRODUCTION

- 1.1 On the whole I do not have any environmental or social concerns with BC Hydro's application to ceasing operations, nor do I any major concerns with the Counsel's Final Argument on behalf of British Columbia Hydro and Power Authority of May 12, 2017
- 1.2 I do have concerns relating to the operations and financial project costs of the Salmon River Diversion to date with BC Hydro. All of which probably will have no impact on the Commission's decision, as BC Hydro seems to have covered the project's past, present and future quite comprehensively in the application, also throughout the IR's and their responses in these proceedings.
- 1.3 I do not have any objections to the Commission's approval, if inclined to do so, approving the Salmon River Diversion Ceasing of Operations Application.
- 1.4 I do have objections regarding the two proposal methods put forward by BC Hydro to account for the projects "deferral of project costs."

2.0 SETTING A PRECEDENCE

- 2.1 I BELIEVE the Commission should take careful note of BC Hydro's Counsel's Final Argument in regard to paragraph 1.1, quote:
*"1.1 Application to Permanently Cease Operations
On March 7, 2017 British Columbia Hydro and Power Authority (BC Hydro) requested permission from the British Columbia Utilities Commission (BCUC or Commission) to cease operations of the Salmon River Diversion (the Project) pursuant to section 41 of the Utilities Commission Act (UCA). The relevant portions of section 41 provide:
A public utility that ... has been deemed to have been granted a certificate of public convenience and necessity, and has begun any operation ... in respect of which the certificate is deemed to have been granted, must not cease the operation or a part of it without first obtaining the permission of the commission.
Pursuant to subsection 45(2)(a) of the UCA a public utility is deemed to have received a Certificate of Public Convenience and Necessity (CPCN) if operating a plant or system on September 11, 1980. BC Hydro is therefore deemed to have received a CPCN for the Salmon River Diversion (Diversion), as it entered into service in 1958, and is a "plant" for the purpose of section 45 of the UCA. BC Hydro plans to permanently cease operations of the Salmon River Diversion; therefore section 41 of the UCA is engaged."*
- 2.2 In reading this paragraph it appears BC Hydro is establishing a precedence that **COULD** become useful to BC Hydro in other / future "ceasing of operations" at other "plant/s" facilities beyond river dams, diversions, aged facilities, due to the possibilities of open ended interpretations in respect to the conjoining of subsection 45(2)(a) of the UCA and section 41 of the UCA.
- 2.3 This concern is born by the fact BC Hydro found it necessary to provide a lengthy chapter : "2 Section 41 Decision Framework". I believe the Commission Panelist's should become **"altered"** by these two references, especially given their possible implications for not just this project which has a small capital value overall, but for other projects under consideration by BC Hydro that by granting to cease operations under the veil of subsection 45(2)(a) and section 41 of the UCA create **unfretted capital project deferral costs**, with little to no application to the BCUC, beyond perhaps a letter to the BCUC seeking a request / approval to cease an operation of any particular plant - asset.

2.4 BC Hydro culminates their understanding with the opinion, quote:

“it is appropriate and indeed proper for the Commission to give significant weight to non-economic factors including, most particularly, stakeholder support for the alternative with the most attractive environmental, social and First Nation attributes.”

2.5 In truth there is not much wrong with these opinions, public consultation should be engaged in all matters concerning Crown Corporations regulated by the BCUC, including and not withstanding small BC Hydro projects that remove assets from the rate base on one hand, while requesting project cost privileges to special deferral accounts.

2.6 BC Hydro makes reference to the Commission order G-20-15. Which primarily appears to address construction of assets, rather than the removal or to cease operations at a “plant”. Please see my caution and opinion that follows in sections 3 and 4.

3.0 SALMON RIVER OPERATIONS

3.1 OVERVIEW:

3.1.1 Simplified:- BC Hydro says they have operated this location for some 60 years with the designed and intended objective to divert the Salmon River into a connecting canal and then to the Campbell River system to support generation at the John Hart and Ladore Generating Stations and to a lesser extent at the Strathcona Generating Station. This resource “had” the potential to support 4% generating capacity at these stations. The fact that in recent years the water flow design capacity of 42.5 m³/s to 15 m³/s was not met, and operated on a limited basis at 5 m³/s, seems to be irrelevant to the appalling lack of maintenance by BC Hydro over the years to culminate to the state these “plant” assets have decayed to at this location.

3.1.2 The only cost effective alternative BC Hydro has to offer is to cease operations, remove certain assets, and rehabilitate the local stream bed to it’s natural state.

3.1.3 Now 60 years later BC Hydro acknowledges by default the Salmon River Diversion project was not essential in the first place, by virtue of dismissing the alternatives (economic and/or remedial repairs / restoration of certain components) given in the application. See “Benefit/Cost Ratios” in the application.

3.1.4 Again this is worthy for the Commission to note, how small operations like this project do not receive long term ongoing maintenance, good repair or upgrading, when their net energy contribution to BC Hydro’s operations are in the 4% range.

3.1.5 It is also scandalous that BC Hydro is not going to remove the 3.1km concrete canal, but left to defecate the environment for eternity. See final argument 4.1.2 Cease Operations and Removal. Quite frankly the Commission should have a lot to say on this point ?

4.0 PROJECT FINANCIAL CONCERNS

4.1 There are several financial concerns arising from BC Hydro’s responses to the BCUC and to my IR’s, as follows:

4.1.1 Reference: Richard T. Landale Information Request No. 1.1.4.3

“To put that into context, when the Rehabilitation Alternative Benefit/Cost Ratio exceeds 1.0, the better the project is able to absorb risks associated with the project, and all else being equal, the project would have a positive impact on customer rates. Below a Benefit/Cost Ratio of 1.0, the cost of the project exceeds the value of the energy, and will have a negative impact on customers’ rates.”

As this project has a 1.58 Benefit/Cost Ratio, why would the Commission approve the capital projects to be assigned to any given deferral account ? Where the capital deferral will depreciate the Benefit/Cost Ratio to a lesser ratio due to servicing finance costs in a deferral account over the given period. This effectively will have a lasting negative impact on customer rates.

4.1.2 Further, BC Hydro did not respond with any cost impacts, reference: “On page 34 of 42, lines 7 to 12, quote:” *“is not the best use of capital given BC Hydro’s capital spending is constrained by the 10 Year Rates Plan.”* As in relation to the 1.58 ratio. So the Commission is not informed of the customer rate impacts / consequences when deciding whether to approve this project’s capital cost assignment to a regulated account (directly impacting the rates), or a new special Dismantling Cost Regulatory Account or to the Heritage Deferral Account. Please refer back to BCUC IR. 1.19.6 for BC Hydro’s responses to costs, or the lack of cost disclosure between the DCRA or the HDA. We only know there is a time period difference, not any costs relating to the Commission’s choices. Also refer back to BCUC IRs 1.19.2, 1.19.3, 1.19.6 and 1.19.6.2 for BC Hydro’s responses. Lastly, please refer to Richard T. Landale Information Request No. 1.2.6 BC Hydro response. We are going around in circles here....., quote: *“Any decisions on what to do would be made after taking into consideration the Commission’s reasons for its decision and whether the Commission decision includes a directive with regard to recovery of these costs.”*

This response would suggest (including spelling errors), the onus is on the Commission to know the cost impacts for this project as assigned to any particular account, before reaching their final decision along with any directives to BC Hydro. The chicken or the egg, or the horse and cart, which comes first ...!

4.1.3 Although BC Hydro did respond to Richard T. Landale Information Request No. 1.2.2 quote: *“The weighted average cost of debt that is forecast to be applied to the regulatory account balances for the fiscal 2017 to fiscal 2019 test period is 4.04 per cent, 4.06 per cent, and 4.13 per cent respectively.”* I have no idea how to translate these percentages into costs, does the Commission? While this quote may not be an argument, I believe BC Hydro has not informed the Commission of the project’s capital costs, as assigned to any particular account going forward over time, or into the next test period, if any.

4.2 FINANCIAL TREATMENT

4.2.1 BC Hydro failed to adequately or informatively respond to Richard T. Landale Information Request 1.2.1, particularly as the IR pertained (named) : *“The Future Removal and Site Restoration Regulatory Account be renamed the Dismantling Cost Regulatory Account”*. The absence of a fulsome response should be reason enough to dismiss BC Hydro’s application to **first** rename the account and **second** assign any more project costs to the account, **third** – what is the current status of this account, how many projects are there , and their separate assigned costs, **fourth**, what is the justification to renaming this account, what are the intensions, and how does the renaming aid BC Hydro, their stakeholders and customers, **fifth**, BC Hydro in their response to BCUC 1.19.6, quote: *“BC Hydro suggests that the Heritage Deferral Account (HDA) is the appropriate regulatory account to defer the costs incurred for the Decommissioning Alternative rather than a separate regulatory account for the following reasons:.....”* See Regulatory Timetable comments.

4.2.2 It appears to this intervener that all BC Hydro want is for the Commission to approve the project costs, and to assign those costs to “any” account so BC Hydro can continue deferring costs relentlessly. As has been the case over the 2013 – 10 year Rates Plan, which is due in part has amassed to **\$3.2 billion** increase in the net deferral balance between 2011/12 and 2015/16. This argument is born in part from BC Hydro’s response to British Columbia Old Age Pensioners' Organization Information Request No. 1.14.24

4.2.3 It is the position of this intervener that any or all project costs associated with this application be assigned to a regular account. Having the costs added directly to the customer rate base, without further additions to any deferral account. As the amounts involved are almost inconsequential to the customer rate base.

5.0 REGULATORY TIMETABLE COMMENT

- 5.1 I acknowledge some of this argument contains questions that remain unanswered. The reason for this is directly attributable to the BCUC Regulatory Timetable issued under order G-49-17. Appendix A. The timetable has no provision for a second Information Request round from Interveners. Therefore BC Hydro, the Commission and Interveners have not had the opportunity to clarify positions or information requests/responses in a fulsome manner. Rendering this intervener's final argument by default my last resort to clarify, although BC Hydro does have a reply opportunity by May 26th 2017.

6.0 PROJECT APPROVAL

- 6.1 The Salmon River Diversion project apparently over time has proven to have been inconsequential to Vancouver Island's hydro – electric operations and energy supply over time. In fact the project appears to have been a source of concern to local First Nations, while others having some fisheries and environmental long standing concerns.
- 6.2 BC Hydro also appear to have undertaken serious impact studies, remediation and investigated various alternatives to ceasing operations, all of which seem quite comprehensive, and informing in of themselves to the Commission.
- 6.3 I approve and support this application to cease operations at the Salmon River Diversion.
- 6.4 I do not support any form of capital or dismantling project costs for deferral to any account. But rather, any and all costs be assigned to the regular account for inclusion into the customer rate base. We must stop adding every little nut and bolt to deferral accounts.
- Consider \$30 million project costs divided by 2 million customers, divided by 6 bi-monthly billings, the customer cost increase amounts to a \$2.50 added to each billing, without incurring any further interest service costs, as proposed by BC Hydro.
- 6.5 I do not support the renaming of "*The Future Removal and Site Restoration Regulatory Account be renamed the Dismantling Cost Regulatory Account*". As BC Hydro has not clearly explained their reasons for such action / approval, and their future intended objectives for such renaming. Or their intended future projects eligible for deferral to this renamed account. All of which seems quite ambiguous.

Respectfully submitted,

Richard T. Landale.
Intervener C-1