

**Christopher R. Bystrom**  
Direct 604 631 4715  
Facsimile 604 632 4715  
cbystrom@fasken.comJanuary 19, 2018  
File No.: 301539.00014**BY ELECTRONIC FILING**British Columbia Utilities Commission  
Suite 410, 900 Howe Street  
Vancouver, BC V6Z 2N3**Attention: Mr. Patrick Wruck,**  
**Commission Secretary and Manager, Regulatory Support**

Dear Sirs/Mesdames:

**Re: British Columbia Hydro and Power Authority**  
**F2017 to F2019 Revenue Requirements Application ~ Project No. 1598931**  
**Reply Submission on Rate Freeze Amendment**

In accordance with the regulatory timetable for this proceeding set by Order G-171-17, as amended, we enclose for filing the electronic version of the Reply Submission of British Columbia Hydro and Power Authority.

Yours truly,

**FASKEN MARTINEAU DuMOULIN LLP***[Original signed by Christopher Bystrom]*

Christopher Bystrom

Encl.

**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**  
**FISCAL 2017 – FISCAL 2019 REVENUE REQUIREMENTS APPLICATION**

**REPLY SUBMISSION**  
**OF BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**  
**ON RATE FREEZE AMENDMENT**

**JANUARY 19, 2018**

FASKEN MARTINEAU DuMOULIN LLP:  
Attn: Matthew Ghikas and Chris Bystrom  
[mghikas@fasken.com](mailto:mghikas@fasken.com); [cbystrom@fasken.com](mailto:cbystrom@fasken.com)  
(604) 631-3131

## TABLE OF CONTENTS

<b>PART ONE: INTRODUCTION AND OVERVIEW .....</b>	<b>1</b>
<b>PART TWO: GOVERNMENT POLICY FOR RATE FREEZE SHOULD BE GIVEN SIGNIFICANT WEIGHT .....</b>	<b>3</b>
A.    Government Policy is a Valid Rationale for a Rate Freeze .....	3
B.    Government Policy Should be Given Significant Weight .....	3
C.    Other Elements of the Mandate Letter.....	8
<b>PART THREE: RATE FREEZE PERMITTED BY REGULATORY AND ACCOUNTING PRINCIPLES .....</b>	<b>8</b>
A.    Cost of Service Will Still Be Recovered.....	8
B.    Comprehensive Review is Targeting Offsetting Savings .....	9
C.    Intergeneration Inequity and Price Signal Concerns are Insignificant Given Timing of Recovery of Rate Smoothing Regulatory Account Balance.....	10
D.    Rate Freeze is Consistent with Purpose of the Rate Smoothing Regulatory Account .....	11
E.    Rate Freeze is Consistent with Applicable Accounting Principles.....	12
<b>PART FOUR: AMPC'S PROPOSED REDUCTION TO BC HYDRO'S REVENUE REQUIREMENT IS ARBITRARY.....</b>	<b>13</b>
<b>PART FIVE: CEC'S INTERIM RATE PROPOSAL IS NOT FEASIBLE .....</b>	<b>14</b>
<b>PART SIX: CONCLUSION AND ORDER SOUGHT.....</b>	<b>16</b>

## PART ONE: INTRODUCTION AND OVERVIEW

1. BC Hydro's Rate Freeze Amendment Application requesting a zero percent rate increase for fiscal 2019 is based on a clear expression of government policy and has a significant level of support from interveners. The rate freeze is supported by four of the eight interveners that take a position in their filed arguments:<sup>1</sup>

- The Association of Major Power Customers of BC ("AMPC") states that there "are sound reasons to accept the proposed rate freeze, and, indeed, the proposed freeze is fully supported by the Commission's ratemaking jurisdiction under the *Utilities Commission Act*." <sup>2</sup>
- The Zone II Ratepayers Group ("ZonellRPG") "supports BC Hydro's request for a rate freeze and takes no issue with BC Hydro's articulation of a regulatory justification for it." <sup>3</sup>
- The British Columbia Old Age Pensioners' Organization *et al.* ("BCOAPO") concludes that "low income ratepayers cannot afford to say no to a rate freeze." <sup>4</sup>
- The Non-Integrated Areas Ratepayers Group ("NIARG") "supports the approval of 0% rate increase in F2019." <sup>5</sup>

2. The Commercial Energy Consumers Association of British Columbia ("CEC"), and FortisBC Energy Inc. and FortisBC Inc. (together, "FortisBC") express nuanced views. CEC

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<sup>1</sup> The Clean Energy Association of BC ("CEABC") takes no position on the rate freeze. The SkyWind Foundation does not express a clear view.

<sup>2</sup> AMPC Argument, para. 3.

<sup>3</sup> ZonellRPG Argument, para. 3.

<sup>4</sup> BCOAPO Argument, para. 23.

<sup>5</sup> NIARG Argument, para. 3.

supports approval of the rate freeze on an “interim basis”, subject to certain conditions.<sup>6</sup> FortisBC expresses concerns regarding adoption of the rate freeze based on the Mandate Letter, but emphasizes that it does not advocate in favour of a rate increase if the Commission is satisfied on consideration of all the circumstances that there is sufficient regulatory justification not to have one.<sup>7</sup>

3. Only Mr. McCandless and the B.C. Sustainable Energy Association and Sierra Club B.C. (“BCSEA”) are outright opposed to the rate freeze.

4. This reply submission is organized as follows:

- Part Two replies to submissions related to government policy: BC Hydro submits government policy is a valid rationale for the rate freeze and should be given significant weight.
- Part Three replies to submissions related to cost of service and accounting principles: BC Hydro submits that the rate freeze is consistent with and permitted by relevant regulatory and accounting principles.
- Part Four explains why CEC’s interim rate freeze proposal is not feasible.
- Part Five explains why AMPC’s suggested reduction in revenue requirements to implement the rate freeze is not supported by evidence and would be arbitrary.

5. BC Hydro has focused this submission on the main topics canvassed by interveners and has not sought to respond on a line-by-line basis to comments that are not central to the present issue before the Commission.<sup>8</sup> Silence by BC Hydro on any particular submission should not be taken as agreement. BC Hydro continues to rely on its evidence and earlier submissions in this proceeding.

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<sup>6</sup> CEC Argument, paras. 10-11.

<sup>7</sup> FortisBC Argument, para. 57.

<sup>8</sup> E.g., BC Hydro has not sought to correct the inaccuracies in Mr. McCandless’s submission.

## **PART TWO: GOVERNMENT POLICY FOR RATE FREEZE SHOULD BE GIVEN SIGNIFICANT WEIGHT**

### **A. Government Policy is a Valid Rationale for a Rate Freeze**

6. Contrary to BCSEA's argument,<sup>9</sup> an unequivocal expression of Government policy is a valid rationale for the proposed rate freeze. BC Hydro reiterates that the Commission, while not legally bound to follow the Minister's Mandate Letter, is entitled to give Government policy significant weight as it has done in the past. The Mandate Letter and the Government's rate freeze policy are important facts that the Commission is entitled to consider in its decision-making process.<sup>10</sup>

### **B. Government Policy Should be Given Significant Weight**

7. FortisBC agrees that government policy can be taken into account in proceedings before the Commission,<sup>11</sup> but questions the weight that should be given to the Mandate Letter based on a number of categories and an examination of past Commission decisions.<sup>12</sup> In BC Hydro's submission, the circumstances in the present case show that Government policy is clear and should be given significant weight.

8. While BC Hydro does not endorse FortisBC's categorization, BC Hydro responds to FortisBC's submissions under each category below.

#### ***Category 1: The "Means by which the government has expressed the policy at issue"<sup>13</sup> supports giving significant weight to the policy***

- The Mandate Letter is clear and unequivocal in calling on BC Hydro to "Freeze BC Hydro rates and develop a refreshed plan".

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<sup>9</sup> BCSEA Argument, p. 2.

<sup>10</sup> See Part Two of BC Hydro's Final Argument.

<sup>11</sup> FortisBC Argument, para. 21.

<sup>12</sup> FortisBC Argument, para. 22.

<sup>13</sup> FortisBC Argument, para. 25.

- On the date that BC Hydro filed its Rate Freeze Amendment Application, the Minister made statements regarding the rate freeze both in a news release<sup>14</sup> and in the Legislature<sup>15</sup>.
- A “rate freeze” is necessarily directed towards the Commission and the present proceeding given the Commission’s jurisdiction over BC Hydro’s rates under the *Utilities Commission Act*.
- Whether or not the Government issued a direction to the Commission does not go to the weight of the policy, but its legal consequences. If the Government had issued a direction to the Commission, the Commission would be legally bound to comply with it and there would be no question of weight.

***Category 2: “The capacity in which the government has made its views known”<sup>16</sup> supports giving significant weight to the policy***

- The policy was made known by BC Hydro’s shareholder, the provincial Government, in the Mandate Letter and in the news release<sup>17</sup> and comments in the Legislature<sup>18</sup> made on the date that BC Hydro filed its Rate Freeze Amendment Application. All of these communications come from the Minister responsible for the *Hydro and Power Authority Act*<sup>19</sup> and energy policy in the province generally.<sup>20</sup>

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<sup>14</sup> Exhibit B-25, BCUC IR 4.1.1.

<sup>15</sup> Legislative Assembly of British Columbia, *Official Report of Debates (Hansard)*, 41<sup>st</sup> Parliament, 2nd Session, (8 November 2017) at approximately 3:05 to 3:28 pm (Hon. M. Mungall). Online: <https://www.leg.bc.ca/documents-data/debate-transcripts/41st-parliament/2nd-session/20171108pm-Hansard-n57>

<sup>16</sup> FortisBC Argument, para. 26.

<sup>17</sup> Exhibit B-25, BCUC IR 4.1.1.

<sup>18</sup> Legislative Assembly of British Columbia, *Official Report of Debates (Hansard)*, 41<sup>st</sup> Parliament, 2nd Session, (8 November 2017) at approximately 3:05 to 3:28 pm (Hon. M. Mungall). Online: <https://www.leg.bc.ca/documents-data/debate-transcripts/41st-parliament/2nd-session/20171108pm-Hansard-n57>

<sup>19</sup> Order in Council 213/2017.

<sup>20</sup> *Ministry of Energy and Mines Act*, R.S.B.C. 1996, c. 298.

**Category 3: “The content of the government statement”<sup>21</sup> supports giving significant weight to the policy**

- The policy to “Freeze BC Hydro Rates” is clear. That the expectation is described concisely does not detract from its weight. The content of the policy was also explained through other means by the Minister in the news release<sup>22</sup> and comments in the Legislature<sup>23</sup> made on the date that BC Hydro filed its Rate Freeze Amendment Application.
- The rate freeze is accompanied by the Government’s plan to conduct a comprehensive review of BC Hydro and develop a refreshed rates plan.
- Direction No. 7 already places a cap on BC Hydro’s rates below its cost of service. The policy of a rate freeze for fiscal 2019 is therefore only an incremental change from previous policy to moderate rate increases, which was already reflected in the Fiscal 2017 – Fiscal 2019 Revenue Requirements Application, and only impacts the amount that was proposed to be deferred to the Rate Smoothing Regulatory Account.
- The impact of the rate freeze will be an immediate positive benefit to ratepayers. Future rate impacts due to the deferring of costs in the Rate Smoothing Regulatory Account may be offset by the results of the comprehensive review of BC Hydro and the refreshed rates plan.

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<sup>21</sup> FortisBC Argument, para. 29.

<sup>22</sup> Exhibit B-25, BCUC IR 4.1.1.

<sup>23</sup> Legislative Assembly of British Columbia, *Official Report of Debates (Hansard)*, 41<sup>st</sup> Parliament, 2nd Session, (8 November 2017) at approximately 3:05 to 3:28 pm (Hon. M. Mungall). Online: <https://www.leg.bc.ca/documents-data/debate-transcripts/41st-parliament/2nd-session/20171108pm-Hansard-n57>

**Category 4: “The nature and stage of the proceeding in which the government policy has been raised”<sup>24</sup> supports giving significant weight to the policy**

- Government policy for a rate freeze was articulated at a relatively late stage in this proceeding due to the recent change in government. A new government’s policy should not be given *less* weight on the basis that the previous government had a different view. The government policy should arguably be given *more* weight in these circumstances, to reflect the importance of the democratic election process in the province.
- The rate freeze is wholly within the Commission’s jurisdiction to implement and the regulatory construct to defer the recovery of costs is already in place through the Rate Smoothing Regulatory Account.
- The topic of deferring costs to the Rate Smoothing Regulatory Account was thoroughly canvassed in the proceeding. The incremental impact of deferring approximately \$140 million more to the account was efficiently and fully addressed in the supplemental process ordered by the Commission.

9. In reply to FortisBC’s discussion of the Commission’s 1990 Decision commenting on “policy driven” rates,<sup>25</sup> the proposed rate freeze does not decouple BC Hydro’s rates from its costs altogether (as in the 1990 case), but only defers a greater amount of costs than already directed by government in Direction No. 7. BC Hydro’s evidence is clear that its continued expectation is that the balance in the Rate Smoothing Regulatory Account is to be recovered by 2024;<sup>26</sup> moreover, the recovery period for the Rate Smoothing Regulatory Account is within the Commission’s jurisdiction to determine.<sup>27</sup> BC Hydro also notes that the “policy driven” rates in the 1990 case were above the cost of service, leading the Commission to express concerns that the rates that would not support prudent decision making and

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<sup>24</sup> FortisBC Argument, para. 31.

<sup>25</sup> FortisBC Argument, para. 30.

<sup>26</sup> Exhibit 25, BCUC IR 4.1.4.

<sup>27</sup> Direction No. 7, Section 7(k).

efficient operations.<sup>28</sup> In the case of the rate freeze, the situation is reversed, with rates being set below the cost of service and BC Hydro being called upon to find new efficiencies and reduce costs for ratepayers.

10. FortisBC's analysis of past decisions where the Commission gave weight to Government policy<sup>29</sup> does not undermine the fundamental point that the Commission has in fact given significant weight to government policy in its decision making. Past cases will always differ in their facts and context to some extent. The particular circumstances in which Government policy has been given weight in the past does not constrain the circumstances in which it may be given weight in the future. The governing principle exemplified in all the cases is that Government policy can be given significant weight in the Commission's decision-making.

11. Further, FortisBC does not cite authority for why government policy should be given more weight when it relates to a program (as opposed to rates), a new program (as opposed to an old program), when it is set out in the outset (rather than at the end) of a process, or when it is for an interim (rather than final) order. In BC Hydro's submission, each case must be considered by the Commission in its own particular context and on its own merits.

12. The present case involves an across-the-board rate freeze for fiscal 2019. This will provide a broad benefit to customers in fiscal 2019, and is supported by the Government's commitment to a comprehensive review of BC Hydro and a refreshed rates plan. The rate freeze is simple and straightforward to implement. BC Hydro's rates for fiscal 2019 are already capped below the cost of service by Direction No. 7, and the Rate Smoothing Regulatory Account required to implement the rate freeze is already in place. The rate freeze reflects the policy of the newly elected provincial government. An expression of policy should be given significant weight in these circumstances.

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<sup>28</sup> As quoted in para. 30 of FortisBC's Argument.

<sup>29</sup> FortisBC Argument, paras. 33-35.

### **C. Other Elements of the Mandate Letter**

13. CEC's submission that the Commission should consider whether there is regulatory justification to give effect to other aspects of the Minister's Mandate Letter is not necessary.<sup>30</sup> As detailed in responses to information requests, BC Hydro's rate freeze application gives effect to the portion of the Minister's Mandate Letter that requires an amendment to the Fiscal 2017 – Fiscal 2019 Revenue Requirements Application. Other aspects of the Mandate Letter are already appropriately reflected in the Application for the fiscal 2017 to 2019 test period.<sup>31</sup>

14. In reply to CEC's submission on demand-side management,<sup>32</sup> the Mandate Letter does not require BC Hydro to immediately expand its energy efficiency and conservation programs. Rather, the Mandate Letter states that BC Hydro will work with the Ministry to "Support the creation of a roadmap for the future of BC energy that will drive innovation, expand energy efficiency and conservation programs..."<sup>33</sup> The referenced roadmap is a Government initiative that BC Hydro is expected to support, and is not an initiative that is being led by BC Hydro. BC Hydro does not know the timeline for the development of the roadmap.<sup>34</sup> As the roadmap is not developed, there are no known implications for the Fiscal 2017 – Fiscal 2019 Revenue Requirements Application.

## **PART THREE: RATE FREEZE PERMITTED BY REGULATORY AND ACCOUNTING PRINCIPLES**

### **A. Cost of Service Will Still Be Recovered**

15. In reply to the submissions of FortisBC and BCSEA that rates will be set below the cost of service,<sup>35</sup> BC Hydro submits that the Commission will still be setting rates based on

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<sup>30</sup> CEC Argument, para. 40.

<sup>31</sup> Exhibit B-25, BCOAPO IR 4.145.1.

<sup>32</sup> CEC Argument, para. 34.

<sup>33</sup> Exhibit 23, Attachment 1, page 2 of 4.

<sup>34</sup> Exhibit B-25, NIARG 4.31.1.

<sup>35</sup> BCOAPO also makes submissions regarding its general support of cost of service regulation, e.g, para. 15.

a review of BC Hydro's forecast costs in the test period,<sup>36</sup> and BC Hydro will still recover its cost of service through the recovery of the balance in the Rate Smoothing Regulatory Account.<sup>37</sup> The recovery of the balance in the Rate Smoothing Regulatory Account is a key component of the 2013 10 Year Rates Plan.<sup>38</sup> BC Hydro is on track to meet the objectives of the 2013 10 Year Rates Plan, including fully recovering the balance in the Rate Smoothing Regulatory Account by the end of fiscal 2024.<sup>39</sup> This outcome is unaffected by the rate freeze.<sup>40</sup>

16. Moreover, BC Hydro demonstrated in its July 4, 2017 Reply Submissions that it has taken a rigorous approach to its deferral and regulatory accounts generally, and is on track to significantly reduce the balance in its accounts during the remaining years of the 2013 10 Year Rates Plan. BC Hydro forecasts that the total balance in the regulatory accounts at the end of the test period will, at the end of the 2013 10 Year Rates Plan period, be reduced by approximately \$2.4 billion, or 40 per cent based on existing regulatory mechanisms and those proposed with the Fiscal 2017 – Fiscal 2019 Revenue Requirements Application.<sup>41</sup> BC Hydro submits that its approach to managing its regulatory accounts is reasonable and effective.

17. Finally, BC Hydro notes that Direction No. 7 already requires the setting of rates in fiscal 2019 below the cost of service. The rate freeze is, in this sense, only an incremental change from existing legal requirements. In BC Hydro's submission, the further deferral of costs is justified by Government policy in this case.

## **B. Comprehensive Review is Targeting Offsetting Savings**

18. In reply to BCSEA's submissions regarding the rate impacts in future years, the potential for any such impacts must be weighed against the immediate benefits to customers

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<sup>36</sup> Exhibit B-10, McCandless IR 1.1.4.

<sup>37</sup> Exhibit B-23, "BC Hydro is maintaining its requests related to...the total revenue requirements for fiscal 2019."; Exhibit B-25, BCUC IR 4.1.4 and BCUC IR 4.5.1.

<sup>38</sup> Exhibit B-1, p. 7-43; Exhibit B-9, BCUC IR 1.159.5.

<sup>39</sup> Exhibit B-1-1, Application, pp. 1-16 to 1-18 and Section 7.5.24; Exhibit B-9, BCUC IR 1.124.1.

<sup>40</sup> Exhibit B-25, BCUC IR 4.1.4.

<sup>41</sup> Exhibit B-1-1, Application, p. 7-5.

in fiscal 2019 due to the rate freeze and the potential for offsetting cost savings in the future. The Government has made it clear that a comprehensive review of BC Hydro will be completed in conjunction with the development of a refreshed plan for rates, with the results being reflected in rates starting in fiscal 2020.<sup>42</sup> While a rate freeze is not necessary for the comprehensive review to proceed, it allows for existing rates to be maintained while the review takes place.

19. In reply to ZonellRPG's submission<sup>43</sup> and the submission of the CEABC regarding participation in the comprehensive review, the outcome of the comprehensive review and refreshed rates plan will be reflected in rates starting in fiscal 2020. Interveners, stakeholders, the public and the Commission will have the opportunity to evaluate the comprehensive review and refreshed rates plan in BC Hydro's next revenue requirements application. Accordingly, that application is the appropriate process to engage various parties in the topics covered by the comprehensive review and refreshed rates plan. It is also the appropriate process for the Commission to evaluate the extent to which the comprehensive review and refreshed rates plan were able to identify savings, whether BC Hydro's proposed rate increases are sufficient and whether the proposed recovery period and mechanism for the Rate Smoothing Regulatory Account is appropriate.

**C. Intergeneration Inequity and Price Signal Concerns are Insignificant Given Timing of Recovery of Rate Smoothing Regulatory Account Balance**

20. BCSEA and FortisBC express concerns regarding intergenerational equity<sup>44</sup> and BCSEA is concerned about price signals encouraging efficient use.<sup>45</sup> These concerns are insignificant as the balance in the Rate Smoothing Regulatory Account will still be recovered

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<sup>42</sup> Exhibit B-25, BCSEA IR 4.1.2. The full announcement can be found at this link:

<https://news.gov.bc.ca/releases/2017EMPR0021-001875>

<sup>43</sup> At para. 9.

<sup>44</sup> BCSEA Argument, p. 1; FortisBC Argument, paras. 44-56

<sup>45</sup> BCSEA Argument, p. 1.

over the fiscal 2020 to fiscal 2024 period. As described in BC Hydro's Final Submission,<sup>46</sup> Direction No. 7 mandates the use of a Rate Smoothing Regulatory Account,<sup>47</sup> with the only condition being that the Commission must allow it to be cleared "from time to time and within a reasonable period".<sup>48</sup> The mandated use of the Rate Smoothing Regulatory Account inherently shifts costs from the current year to subsequent years. However, BC Hydro's planned recovery period for the account remains unchanged,<sup>49</sup> and the Commission retains the authority to set the recovery period for the Rate Smoothing Regulatory Account.<sup>50</sup> Full recovery of the amount within five years avoids any truly "intergenerational" impacts. While there will be a small reduction in the price signal in fiscal 2019, price signals will be maintained as the balance in the Rate Smoothing Regulatory Account is recovered.<sup>51</sup> In such circumstances, the Minister's Mandate Letter should be given the greatest weight.

**D. Rate Freeze is Consistent with Purpose of the Rate Smoothing Regulatory Account**

21. Contrary to the submissions of BCSEA,<sup>52</sup> a rate freeze in 2019 is consistent with the purpose of the Rate Smoothing Regulatory Account. The Rate Smoothing Regulatory Account was created to keep rate increases as gradual and predictable as possible, by spreading costs that occur in the earlier years of the 2013 10 Year Rates Plan over the later years. Its purpose is to defer for recovery in rates in future fiscal years, those portions of the allowed revenue requirement in a particular fiscal year that were not, or are not to be recovered in rates in that particular fiscal year.<sup>53</sup> BC Hydro's rate freeze application is consistent with the purpose of the Rate Smoothing Regulatory Account in that the portion of the allowed revenue requirement for fiscal 2019 related to BC Hydro's request that rate

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<sup>46</sup> At para. 19.

<sup>47</sup> Direction No. 7, s. 9(2).

<sup>48</sup> Direction No. 7, s. 7(k).

<sup>49</sup> Exhibit B-25, BCUC IR 4.1.4.

<sup>50</sup> Direction No. 7, Section 7(k).

<sup>51</sup> Exhibit B-25, BCSEA IR 4.1.13.

<sup>52</sup> BCSEA Submission, p. 2.

<sup>53</sup> Exhibit B-25, BCSEA IR 4.1.8.

increases in fiscal 2019 be 0 per cent will be deferred to the Rate Smoothing Regulatory Account.<sup>54</sup> As indicated above, BC Hydro is on track to fully recover the balance in the Rate Smoothing Regulatory Account by the end of fiscal 2024,<sup>55</sup> and this outcome is unaffected by the rate freeze.<sup>56</sup>

#### **E. Rate Freeze is Consistent with Applicable Accounting Principles**

22. Contrary to Mr. McCandless's argument,<sup>57</sup> the rate freeze is permitted by the applicable accounting principles. BC Hydro follows the Prescribed Standards discussed in section 8.12 of the Fiscal 2017 – Fiscal 2019 Revenue Requirements Application. The Prescribed Standards are based on accounting principles of the International Financial Reporting Standards (IFRS) and regulatory accounting in accordance with the Financial Accounting Standards Board Accounting Standards Codification 980, Regulated Operations. Accounting Standards Codification 980 is a United States Generally Accepted Accounting Principles (GAAP) standard.<sup>58</sup>

23. Accounting Standards Codification 980-340-25-1 provides general guidance for the recognition of regulatory assets. It states that all or part of an item can be capitalized if it is an incurred cost and if it is probable that the cost will be recovered in future rates. Amounts transferred to the Rate Smoothing Regulatory Account are incurred costs (they are portions of the allowed revenue requirement) and there is probable recovery (the Rate Smoothing Regulatory Account has been designed to be fully recovered and BC Hydro expects full recovery of deferrals in rates). Therefore, the Rate Smoothing Regulatory Account, and the increased transfer to the Rate Smoothing Regulatory Account to support the rate freeze, meets the criteria of Accounting Standards Codification 980.<sup>59</sup>

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<sup>54</sup> Exhibit B-25, BCSEA IR 4.1.8.

<sup>55</sup> Exhibit B-1-1, Application, pp. 1-16 to 1-18 and Section 7.5.24; Exhibit B-9, BCUC IR 1.124.1.

<sup>56</sup> Exhibit B-25, BCUC IR 4.1.4.

<sup>57</sup> McCandless Argument, pp. 2-3.

<sup>58</sup> Exhibit B-9, BCUC IR 1.159.5.

<sup>59</sup> Exhibit B-9, BCUC IR 1.159.5.

**PART FOUR: AMPC'S PROPOSED REDUCTION TO BC HYDRO'S REVENUE REQUIREMENT IS ARBITRARY**

24. AMPC supports the rate freeze, but submits that the Commission should also reduce BC Hydro's overall revenue requirement for fiscal 2019.<sup>60</sup> AMPC's proposal calls for an arbitrary reduction in the revenue requirement by \$142 million without any evidentiary basis and is also contrary to Government policy.

25. As described in the Fiscal 2017 – Fiscal 2019 Revenue Requirements Application and BC Hydro's evidence and argument throughout this proceeding, BC Hydro's forecast revenue requirements for the test period reflect BC Hydro's efforts over a number of years to manage costs. BC Hydro took additional steps in response to reduced forecast revenues and is focussing on key priorities during the test period.<sup>61</sup> BC Hydro has incorporated all available efficiencies into the current test period which reflect significant steps to control costs.<sup>62</sup> There is no evidentiary basis to support AMPC's proposed reduction. There is no evidence that any proposed expenditures during the test period are too high or should be disallowed.

26. The Minister's Mandate Letter includes an expectation that BC Hydro should continue to operate within its existing budgets,<sup>63</sup> which extend to the end of the test period. The Government's announcement of the rate freeze linked the rate freeze to a future comprehensive review of BC Hydro, the results of which would be reflected after the current test period:

The rate freeze will provide government the time to undertake a comprehensive review of BC Hydro. That review will identify changes and cost savings to keep rates low while ensuring BC Hydro has the resources it needs to continue to provide clean, safe and reliable electricity. Details of the scope and process for the review will be developed once government has made a final decision on Site C.

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<sup>60</sup> AMPC Argument, paras. 22-30.

<sup>61</sup> Exhibit B-25, BCUC IR 4.3.1. E.g., BC Hydro Final Submission, paras. 45-52.

<sup>62</sup> Exhibit B-25, BCUC IR 4.3.1.

<sup>63</sup> Exhibit B-23, Attachment 1.

After completing a comprehensive review of BC Hydro, any cost and revenue adjustments identified will be reflected in rates starting in April 2019.<sup>64</sup>  
[Emphasis added.]

27. A reduction in the revenue requirement to implement the rate freeze is also opposed by other interveners. Zone IIRPG submitted that BC Hydro's maintenance of the capital-related and other expenditures contained in the Application in fiscal 2019 is a "critical pre-condition" for Zone IIRPG's support of the rate freeze.<sup>65</sup>

28. The amount of the reduction suggested by AMPC also demonstrates that the proposal is arbitrary. The \$142 million reduction proposed by AMPC is premised only upon the arithmetic difference in revenue caused by the rate freeze (as compared to a 3 per cent cap). It is not tied to any evidence of available savings.

29. BC Hydro's proposed expenditures for the test period are reasonable and incorporated all available efficiencies. The Commission should implement the rate freeze without the condition proposed by AMPC.

#### **PART FIVE: CEC'S INTERIM RATE PROPOSAL IS NOT FEASIBLE**

30. CEC agrees that the Mandate Letter is a clear expression of government policy and should be given significant weight.<sup>66</sup> However, CEC suggests that the rate freeze be approved on an interim basis with a number of "caveats", including the filing of updates on the comprehensive review and the refreshed rates plan.<sup>67</sup> CEC's proposed conditions are inconsistent with the timeline for the comprehensive review, and would introduce uncertainty for customers as to the rates for fiscal 2019.

31. The Commission should approve final rates for fiscal 2019 at this time. As described above, the Minister's Mandate Letter to BC Hydro expresses the expectation that BC

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<sup>64</sup> Exhibit B-25, BCOAPO IR 4.145.1.

<sup>65</sup> Zone IIRPG Argument, para. 4.

<sup>66</sup> CEC Argument, para. 16.

<sup>67</sup> CEC Argument, paras. 10, 29, 63 and 72.

Hydro “will manage its programs and initiatives within its existing budget targets, unless otherwise directed.” BC Hydro’s “existing budget targets” for the fiscal 2017 to fiscal 2019 period are before the Commission in this Application. BC Hydro has filed a substantial body of evidence that supports our forecast of test period revenue requirements, including discussion of a number of steps it has already taken to reduce costs. BC Hydro expects that the comprehensive review and refreshed rates plan will require significant time to complete and would not have implications until fiscal 2020, as confirmed by Government’s November 8, 2017 news release regarding the rate freeze.<sup>68</sup> In such circumstances, it would be inefficient and unnecessary to revisit the evidence on fiscal 2019 revenue requirements or defer a decision on permanent rates.<sup>69</sup> As noted above, the Government has made it clear that a comprehensive review of BC Hydro will be completed in conjunction with the development of a refreshed plan for rates, with the results being reflected in rates starting in fiscal 2020.<sup>70</sup>

32. The next revenue requirement proceeding is the appropriate process for the evaluation and review of the refreshed rates plan and for the Commission to determine the appropriate recovery mechanism for the Rate Smoothing Regulatory Account. A future proceeding is also the appropriate time to assess the extent to which the review and refreshed rates plan were able to identify savings to offset the foregone revenue as a result of the rate freeze and, if required in response, make adjustments to BC Hydro’s proposed rate increases and Rate Smoothing Regulatory Account recovery proposals for fiscal 2020 and beyond. To make these determinations any earlier would be out of context and would prejudice the results of the review and development of the refreshed rates plan.

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<sup>68</sup> Exhibit B-25, BCUC IR 4.5.1.

<sup>69</sup> Exhibit B-25, CEC IR 4.189.1.

<sup>70</sup> Exhibit B-25, BCSEA IR 4.1.2. The full announcement can be found at this link:  
<https://news.gov.bc.ca/releases/2017EMPR0021-001875>

33. In addition, AMPC made submissions with respect to the potential disruption to its members of the failure to give effect to the rate freeze.<sup>71</sup> The CEC proposal of interim rates would increase uncertainty for customers with regard to fiscal 2019 rates.

34. For these reasons, the Commission should not accede to CEC's proposal that rates for fiscal 2019 be set on an interim basis with conditions.

**PART SIX: CONCLUSION AND ORDER SOUGHT**

35. BC Hydro respectfully submits that the Commission should approve the requested rate freeze, giving effect to a key Government policy as it has in the past. The Commission will have the ability to determine, in a future application, the appropriate approach to recovering the balance in the Rate Smoothing Regulatory Account, having regard for the impacts of the rate freeze and any subsequent actions taken in response to the comprehensive review and refreshed rates plan.

36. BC Hydro will recalculate its revenue requirements for the updates, errata and commitments, as well as any directives from the Commission, in its compliance filing.<sup>72</sup>

**ALL OF WHICH IS RESPECTFULLY SUBMITTED.**

Dated: January 19, 2018 *[original signed by Matthew Ghikas]*  
Matthew Ghikas

Dated: January 19, 2018 *[original signed by Chris Bystrom]*  
Chris Bystrom

Dated: January 19, 2018 *[original signed by Tariq Ahmed]*  
Tariq Ahmed

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<sup>71</sup> AMPC Argument, para. 5.

<sup>72</sup> Exhibit B-25, FortisBC IR 4.20.2.