

August 22, 2019

VIA E-FILING

Patrick Wruck
Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3



Reply to: Leigha Worth
ED@bcpiac.org
Ph: 604-687-3034
Our File: 7636

Dear Mr. Wruck,

**Re: British Columbia Hydro and Power Authority Review of the Regulatory Oversight of Capital Expenditures and Projects ~ Project No. 1598877
BCOAPO's Final Argument**

We represent the BC Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, Tenant Resource and Advisory Centre, and Together Against Poverty Society, known collectively in BC Hydro regulatory processes as "BCOAPO et al." ("BCOAPO").

Enclosed please find the BCOAPO's Final Argument with respect to the above-noted matter.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Leigha Worth
Executive Director | General Counsel

Encl.

**BC OLD AGE PENSIONERS' ORGANIZATION, ACTIVE SUPPORT AGAINST POVERTY,
COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC,
DISABILITY ALLIANCE BC, TENANT RESOURCE AND ADVISORY CENTRE,
AND TOGETHER AGAINST POVERTY SOCIETY ("BCOAPO")**

**British Columbia Hydro and Power Authority Review of the Regulatory Oversight of
Capital Expenditures and Projects ~ Project No. 1598877**

BCOAPO's Final Argument

August 22, 2019

Please be advised that we provide the following final argument regarding the above-noted application on behalf of our client groups known in this and other regulatory processes as BCOAPO or BCOAPO et al. The constituent groups of BCOAPO et al. represent the interests of low and fixed income energy consumers within BC and more specifically in this process, the interests of British Columbia Hydro and Power Authority's ("BC Hydro") low and fixed income residential ratepayers.

1.0 INTRODUCTION

In Order G-58-16 the BCUC established a proceeding to review the regulatory oversight of BC Hydro's capital expenditures and projects.

The BCUC subsequently established a regulatory process that involved determining the scope of the review¹; BC Hydro filing a "Strawman Proposal"²; parties submitting written technical/clarifying questions to which BC Hydro responded; followed by a transcribed Workshop where further questions were addressed; BC Hydro submitting a Revised Proposal³; the submission of evidence by other parties (i.e., CEC⁴); Rebuttal Evidence by BC Hydro⁵, and interrogatories from parties on BC Hydro's Revised Proposal and Rebuttal Evidence⁶. BC Hydro filed its Final Argument on August 1, 2019.

Set out below are BCOAPO's submissions regarding BC Hydro's Revised Proposal.

¹ Order G-63-16 (Appendix B) and Order G-174-16

² Exhibit B-3

³ Exhibit B-7 and Exhibit B-7-1

⁴ Exhibits C3-10 and C3-11

⁵ Exhibits B-15 and B-15-1

⁶ Exhibit B-16

2.0 OVERVIEW OF BC HYDRO PROPOSAL AND BCOAPO SUBMISSIONS

The scope of the review established by the BCUC is set out below⁷:

- **Item 1:** The scope, timing, and process for the Commission's review of BC Hydro's capital expenditures and projects. This includes consideration of the appropriateness of such reviews as a component of various applications and filings BC Hydro makes with the Commission.

The applications and filings identified by the BCUC included Revenue Requirement Applications (RRAs), Annual Reports, project-specific compliance filings, applications made pursuant to section 46(1) of the *UCA* (CPCN Applications), and applications made pursuant to section 44(2) of the *UCA* (expenditure schedule applications).

- **Item 2:** The appropriateness of BC Hydro's 2010 Capital Project Filing Guidelines for IT capital expenditures and projects or separate IT capital project filing guidelines.

The 2010 Capital Project Filing Guidelines included a \$20 million threshold for Information Technology and Telecommunications (IT&T) projects⁸.

- **Item 3:** The appropriateness of the expenditure thresholds contained in BC Hydro's 2010 Capital Project Filing Guidelines.

The 2010 Capital Project Filing Guidelines established three different expenditure threshold levels for capital projects, as follows⁹:

- \$100 million for generation and transmission (including Substation Distribution Asset (SDA) components) projects;
 - \$50 million for distribution and building projects; and
 - \$20 million for information technology and telecommunication (IT&T) projects.
- **Item 4:** The circumstances under which it is appropriate for BC Hydro to file an application pursuant to section 46(1) of the *UCA* versus section 44(2) of the *UCA*.

Based on the 2010 Capital Project Filing Guidelines BC Hydro files for a CPCN pursuant to subsection 46(1) of the *UCA* with respect to BC Hydro plant or system required to serve

⁷ Order G-63-16 (Appendix B)

⁸ Exhibit B-16, BCUC 2.37.2

⁹ Exhibit B-3, Appendix C, page 1

a new service area (e.g., not part of the existing BC Hydro integrated system). There is no expenditure threshold trigger for these filings. BC Hydro also files for a CPCN pursuant to subsection 46(1) of the UCA for capital projects which are clearly extensions and which are above the expenditure thresholds set out in the Guidelines. Examples include facility end-of-life replacement projects (as opposed to individual component(s) that have reached end-of-life), and new projects designed to serve incremental energy and/or peak load growth. BC Hydro files for Expenditure schedule(s) acceptance pursuant to subsection 44.2(1)(b) of the UCA for capital projects that are not extensions and that are above the expenditure thresholds¹⁰.

BC Hydro's Argument¹¹ attempts to separate the various filings and proceedings associated with the BCUC's oversight of BC Hydro capital expenditures into those two categories: those that take place prior to implementation and then those that take place after implementation. In this context, Revenue Requirement Applications, Section 46(1) Applications (i.e., CPCNs) and Section 44(2) Applications (Expenditure Schedules) relate to the oversight of BC Hydro's capital investments in advance of implementation¹². By default, compliance filings (including both the Annual Report and project-specific compliance filings) are related to the oversight of capital investments/projects *after* implementation. BC Hydro has noted in its Argument¹³ that, in this context, implementation is considered to be the situation before significant dollars have been spent on a project, recognizing that some dollars must be spent before a capital project can be meaningfully considered.

BCOAPO does not accept that there is always a bright line between the roles of the various filings and proceedings.

- 1) As discussed further below, BCOAPO sees one of the roles/functions of the RRA being the confirmation that capital additions made during the prior test period (i.e., the test years addressed in the previous RRA) are reasonable and appropriate for inclusion in the determination of the revenue requirement for the current test period. BC Hydro has confirmed that it agrees that this is a valid matter for the BCUC to be considered when reviewing a Revenue Requirements Application.¹⁴

¹⁰ Exhibit b-3, Appendix C, page 3

¹¹ BC Hydro's Argument, pages 21 and 26-27

¹² BC Hydro's Argument, pages 26-27

¹³ Argument, page 26, Footnote 48 and Exhibit B-4, BCOAPO 1.19.1

¹⁴ Exhibit B-4, BCOAPO 1.8.1

- 2) Also, BCOAPO agrees that the need for projects that have already received approval/acceptance under Sections 46(1) and 44(2) does not need to be reviewed if the scope and cost of the projects has not materially changed. However, if this is not the case, then BCUC may need to re-consider, as part of the RRA proceeding, whether the project and the associated spending are still reasonable for inclusion in rates. In BCOAPO's view, sufficient information must be filed as part of the Application for parties (including the BCUC) to confirm whether or not the scope and/or costs of such projects has materially changed. Again, BC Hydro has indicated that it agrees with this view¹⁵.
- 3) Finally, BCOAPO sees the role of the Annual Report as not only being one of reporting on the implementation progress and results of the projects that have been identified in previous filings but it is also an appropriate vehicle by which BC Hydro can advise the BCUC of new projects that have arisen since the last RRA. In BCOAPO's submission, this is particularly important in the case of extension projects that do not meet the financial materiality thresholds such that they will (automatically) be the subject of a future CPCN application under section 46(1). In such situations, there is a need for the BCUC to be made aware of any public interest issues related to the project that could potentially motivate the Commission to direct that a CPCN be filed. BCOAPO's concern is that if such issues are not identified until the next RRA filing then significant funds may already have been expended on the project.

One need only look to the example of Site C to see how some parties came to believe that the timing of an inquiry can have a major impact on the outcome of a regulatory process and a decision to proceed. Whether one agrees that the decision on Site C would have been different had the inquiry into the need for the project taken place earlier, the fact remains that there are projects like Keeyask and Muskrat Falls that would not, if having been subject to a fulsome regulatory review prior to implementation, have proceeded or at least proceeded in the manner undertaken. Site C too stands as an example of how not to proceed, with a much needed regulatory review only having been approved long after the utility's horses were driven out of its stable to the tune of billions of dollars. Ratepayers, and particularly those on the financial fringe, need certainty that the timing of projects in relation to RRA filings will not negatively impact the Commission's ability to receive the information necessary for it to engage in the regulatory oversight upon which they rely.

¹⁵ Exhibit B-4, BCOAPO 1.9.1 and Exhibit B-7, page 18 (lines 14-16)

Also, BC Hydro's Argument¹⁶ appears to equate the review of capital projects after implementation with prudence reviews and, more specifically, the process by which the BCUC should determine whether costs have been imprudently incurred. In BCOAPO's view there is a need for the BCUC to determine, putting aside for the moment the issue of whether these projects should be reviewed in the first instance as part of an RRA, whether the costs related to in-service additions that have occurred during the previous test period (i.e., since the last RRA) are reasonable and should be recovered from customers. Such a review does not (necessarily) involve a formal prudence review and can start with confirming that the cost of the in-service additions are not materially different from those forecast (and accepted) in the last RRA or that there are reasonable explanations for any material differences. BCOAPO submits that again, at the very least, sufficient information needs to be provided as part of BC Hydro's RRA filing to allow this review to occur and to focus any further discovery. This issue is addressed further in section 2.1.1 below.

2.1 Regulatory Proceedings/Filings (Item #1)

With respect to Item #1, BC Hydro's proposed 2018 Capital Filing Guidelines ("Proposed Guidelines") set out the types of projects that would be reviewed as part of Revenue Requirement Applications, Section 46(1) Applications and Section 44(2) Applications and defines the scope of each¹⁷. The Proposed Guidelines also address the information that BC Hydro will provide in its Annual Report and project-specific compliance reports¹⁸.

2.1.1 Revenue Requirement Applications

BC Hydro sees its RRA's as the avenue for the BCUC to review and test those projects that are not the subject of a Major Project application because they do not meet the Major Project filing threshold, or the BCUC has not directed the Utility to submit a CPCN application for¹⁹. The Proposed Guidelines characterizes these projects as falling into one of three categories²⁰:

- 1) Projects with a CPCN, accepted expenditure schedule, or an exemption and that have capital expenditures or additions in the test period: for these projects the scope of review in a revenue requirements proceeding may include consideration of the execution of projects. However,

¹⁶ Pages 34-37

¹⁷ Exhibit B-7, Appendix B, pages 1-4

¹⁸ Exhibit B-7, Appendix B, pages 4-5

¹⁹ BC Hydro Argument, page 29

²⁰ Exhibit B-7, Appendix B, pages 1-2

the Proposed Guidelines also indicate that detailed consideration of BC Hydro's project execution is best reviewed at project completion when total cost and outcomes are known.

- 2) Projects subject to a future CPCN or section 44.2 application that have capital expenditures or additions in the test period: for these projects, the scope of review in a revenue requirements proceeding may include examination of project need and alternatives to the extent reasonably required to test the forecast capital expenditures or additions in the test period. However, a detailed assessment of need and alternatives should be left to the pending CPCN or section 44.2 application for these projects.
- 3) Projects that do not meet the requirements for a CPCN application or have not and will not be the subject of a section 44.2 application: this would include both projects that are already underway without prior Commission approval²¹ or exemption and future projects that do not meet the requirements for an CPCN application and will not be the subject of a section 44.2 application²². For these projects, the scope of review in a revenue requirements proceeding may include an examination of project need and alternatives and the reasonableness of the forecast assuming the project proceeds. However, any consideration of project execution will normally await project completion.

Having said this, both the discussion document supporting the Proposed 2018 Capital Review Guidelines²³ and BC Hydro's Argument²⁴ assert that, in considering a Revenue Requirements Application, the Commission should focus its review on capital additions. BCOAPO does not embrace that limitation: in our clients' views, this fetters the Commission ability to oversee capital spending to an unacceptable degree and it prevents both the Commission and Interveners from having the information and scope necessary to take fully informed positions and make fully informed decisions.

The Proposed 2018 Capital Filing Guidelines set out the following as information that BC Hydro will provide as part of a Revenue Requirements Application for all individual projects above a specified materiality limit²⁵:

- (a) the project's unique planning identification number;
- (b) the project's driver;

²¹ Exhibit B-7, page 27

²² Exhibit B-7, page 30-31

²³ Exhibit B-7, page 31

²⁴ BC Hydro Argument, page 30

²⁵ Exhibit B-7, Appendix B, pages 2-3 and Exhibit B-16, BCOAPO 2.43.2

- (c) the project's lifecycle stage or phase;
- (d) key project milestone dates;
- (e) project forecast capital expenditure and additions;
- (f) an indication of whether a project will be subject to a CPCN or expenditure schedule application;
- (g) an indication whether a project is an extension;
- (h) if applicable, an indication of which strategies, plans, or studies a project is linked to;
- (i) descriptions of the strategies, plans, or studies identified in (h) above;
- (j) If applicable, an indication of which projects are part of Programs of Projects;
- (k) description, objectives, scope, schedule, risk and mitigation strategies, and, if available, cost estimate for the programs identified in (j) above.

In the supporting discussion materials BC Hydro indicated that the information provided will generally be at the same level as provided in the F2017-2019 RRA²⁶. In that RRA filing BC Hydro provided:

- A high level 10-year capital forecast (Appendix G). Similarly, a high-level capital plan for the F2020-F2024 period was included in the F2020-F2021 RRA filing (Appendix H).
- A listing of projects with capital additions in the test period of more than \$5 M, including key milestones and capital additions by year (Appendix I). It is noted that in the F2020-2021 RRA filing this appendix includes both the capital additions and capital expenditures for each project. Also, in the latest RRA filing this appendix indicated whether the project had been/would be the subject of a separate Section 44.2 or CPCN filing and whether it was linked to with a particular Strategy, Plan or Study or to a Program of Programs.
- For projects with capital expenditures of more than \$20 M more details were provided regarding the project regarding the issues being addressed and the alternatives considered (Appendix J). It is noted that in the F2020-2021 RRA filing this appendix also included a discussion of implementation risks and treatment.
- A discussion, by major capital expenditure category, of the capital expenditures and additions in the previous RRA period (F2015-F2016) and variances from the F2015-F2016 Plan

²⁶ Exhibit B-7, pages 26-30

(Appendix K). Similar material was included in the F2020-2021 RRA filing (Appendix G) regarding the F2017-F2018 period.

In its Argument BC Hydro has indicated a willingness to also include in future RRA filings a qualitative discussion of potential public interest issues for each capital project in Appendix J of a revenue requirements application²⁷. BCOAPO believes that, barring the more robust and time-sensitive approach suggested by CEC, this addition would be useful and would improve regulatory efficiency and effectiveness in two ways:

- 1) BC Hydro indicates that public interest matters can be explored during the interrogatory process²⁸ and that the IR process is the appropriate mechanism for obtain additional information on specific issues/investments²⁹. However, in BCOAPO's view, including such information in the RRA filing will help focus discovery any additional discovery that may be required during the IR process.
- 2) BC Hydro also acknowledges that the BCUC has the discretion to direct utilities to file a CPCN for any extension project, such as those it deems have a significant public interest component³⁰. Inclusion of this information would help identify whether there are additional extension projects (apart from those meeting the Major Projects threshold) for which the BCUC would find a CPCN application is required. However, in the case of extension projects BCOAPO submits that the threshold for inclusion of information regarding potential public interest issues should not be \$20 M (as used for Appendix J) but rather \$5 M (as used for Appendix I). The BCUC can then determine whether, given the cost of the project and the potential public interest issues involved, it should direct the utility make a CPCN filing.

In its Argument³¹, BC Hydro has also indicated a willingness to reduce the thresholds used for Appendix J's IT projects to \$10 M as opposed to \$20 M. BCOAPO supports this change and notes that a lower IT threshold for purposes of Appendix J is consistent with the lower IT threshold for purposes of defining Major Projects.

Finally, in its Argument³², BC Hydro noted that in future revenue requirement applications it was amenable to including information on the category of capital investments (mandatory investment, committed investment and investment to be prioritized) for individual projects listed in Appendix

²⁷ Exhibit B-16, BCUC 2.19.4

²⁸ Argument, page 42

²⁹ Argument, page 47

³⁰ Argument, page 42

³¹ Page 59

³² Page 46

I. This information would also be useful and improve regulatory efficiency and effectiveness. Understanding the nature of the investments and how they fit in BC Hydro's enterprise-wide framework for project prioritization would help focus any subsequent discovery.

BCOAPO has a number of issues with BC Hydro's proposal with respect to the review of capital projects in revenue requirement applications. First, BCOAPO agrees that capital additions are of particular importance as they directly affect the revenue requirement for the test period. However, it is important to also consider capital expenditures for projects that do not have capital additions in the test period. In its F2020-F2021 RRA filing BC Hydro noted³³ that its enterprise-wide framework for project prioritization classifies capital investments into one of three categories: i) mandatory investments driven by legal and regulatory requirements; ii) committed investments not to be postponed including projects that were prioritized in previous RRAs and are not economically infeasible to cancel and iii) investments to be prioritized (i.e., projects that can be reprioritized without significant costs). Projects with material capital spending in the test period (relative to their total cost) but no capital additions still do need to be subject to scrutiny as part of the "current" RRA application's review since by the time the next RRA cycles occurs the projects may well fall into the "committed investment" category.

Second, as noted previously, BC Hydro's Proposed Guidelines make no reference to the need for the RRA to review the actual in-service additions that occurred during the previous RRA's test year period to determine whether they are reasonable for inclusion in the current test year period's rates. From a ratepayer standpoint, high-level variance explanations such as those provided in the F2017-F2019 RRA (Appendix K) or in the F2020-20221 RRA (Appendix G) do not provide sufficient detail for individual large projects. BCOAPO submits that the RRA filing should include a variance report showing the difference between actual and planned capital additions for the previous test period for all projects with an authorized cost of \$20 M except IT projects where the threshold should be \$10 M. BCOPAO notes that these thresholds align with the thresholds BC Hydro is willing to adopt for purposes of the more detailed capital project reporting in Appendix J of RRA filings³⁴. The purpose of this information is presumably to confirm the reasonableness of including these capital additions in the rates for the test period so if concerns are identified regarding the appropriateness of the costs then the BCUC would need to determine whether some form of prudence review was necessary and what form it would take.

³³ Pages 6-29 – 6-30

³⁴ BC Hydro Argument, page 59

Third, while BC Hydro is amenable to including information on the category of capital investments (mandatory investment, committed investment and investment to be prioritized) for individual projects listed in Appendix I, it has expressed some reluctance to provide the specific results of the prioritization process in terms of the risk and value scores. The concern appears to be that the enterprise-wide framework for project prioritization, including the risk scores assessed under the framework, is not intended to be used as a standalone tool for capital investment decision making³⁵. BCOAPO accepts that the framework is not a standalone tool and our clients feel it is reasonable to expect the majority of players in regulatory processes to be sophisticated enough to appreciate this as well. However, these scores do provide insight into how BC Hydro views the priority of various projects using a common basis for evaluation for all projects. Provision of this information as part of the initial RRA filing would allow parties to focus their inquiries during the discovery stage of the RRA proceeding.

Finally, BC Hydro has confirmed that the consideration of project execution, as part of the RRA process, includes the question of whether a project should continue if circumstances have changed materially since its approval (i.e., via a section 44.2 or 46.1 filing or in a previous RRA) and that no rewording of the Proposed Guidelines is required³⁶. However, in BCOAPO's view, the wording in paragraph 3 (and paragraph 5) is ambiguous on this issue as it also states: "Detailed consideration of BC Hydro's project execution is best reviewed at project completion when total cost and outcomes are known". We would be remiss if we failed to note that our clients as ratepayers see that further clarification on this point in the Proposed Guidelines is required.

2.1.2 Section 46(1) Applications (CPCNs)

Should the Proposed Guidelines stand as filed, BC Hydro will file an application for a CPCN pursuant to subsection 46(1) of the UCA for capital projects that are an extension and have an authorized cost in excess of its proposed Major Projects thresholds³⁷. These thresholds are addressed under Item (3). Under the Proposed Guidelines BC Hydro will also file for a CPCN pursuant to subsection 46(1) of the UCA with respect to public utility plant or system required to serve a new service area and that is not an extension of BC Hydro's existing system. There will be no expenditure threshold trigger for these latter filings³⁸.

³⁵ Exhibit B-16, BCOAPO 2.24.2

³⁶ Exhibit B-16, BCOAPO 2.41.1

³⁷ Exhibit B-7, Appendix B, page 4

³⁸ Exhibit B-7, Appendix B, page 5

For purposes of the Proposed Guidelines an “extension” is a project initiated with the intent to expand the service area or capacity of a utility plant or system³⁹. Examples provided in the Proposed Guidelines include: facility end-of-life replacement projects (as opposed to individual component(s) that have reached end-of-life); new projects designed to serve incremental energy and/or peak load growth; and refurbishment projects that are not undertaken to serve incremental load growth, but through efficiencies result in additional MWs and/or GWhs/year on a planning basis⁴⁰.

We submit that, for completeness, the Proposed Guidelines should explicitly acknowledge the BCUC has the discretion to direct that a CPCN is required for *any* extension project. The need for additional information to support such determinations is discussed in sections 2.1.1 and 2.1.4 of this submission.

2.1.3 Section 44(2) Applications (Expenditure Schedule Filings)

BC Hydro commits to filing a section 44.2 applications for projects that are not extensions and that are above its proposed Major Project thresholds⁴¹.

BCOAPO has no specific submissions regarding BC Hydro’s proposals with respect to section 44.2 applications.

2.1.4 Annual Reports

The Proposed Guidelines indicate that the Annual Report will include⁴²:

- A comparison between planned and actual capital expenditures at the end of the reporting period. In addition, annual capital expenditures and additions plan to actual cost variance explanations by main asset category will also be provided.
- A listing of all projects which are considered extensions pursuant to section 45(6) of the UCA.

The supporting discussion⁴³ notes that historically BC Hydro’s Annual Reports have included:

- a) a summary of capital expenditures by capital category;

³⁹ Exhibit B-7, Appendix B, page 4

⁴⁰ Exhibit B-7, Appendix B, pages 4-5

⁴¹ Exhibit B-7, Appendix B, page 4

⁴² Exhibit B-7, Appendix B, pages 4-5

⁴³ Exhibit B-7, pages 56-57

- b) a listing of the planned expenditures in the current fiscal year⁴⁴ for projects over the materiality limit (\$2 million for Information Technology projects, \$5 million for all other capital projects), and Demand Side Management;
- c) an indication of which projects are considered extensions, pursuant to section 45(6) of the UCA for all projects over the materiality limit; and
- d) a listing of projects over the Major Project threshold and the anticipated type of regulatory filings.

The discussion also indicates that more recent Annual Reports have included a comparison between planned and actual capital expenditures at the end of the reporting period and that ‘annual capital expenditures and additions plan to actual cost variance explanations by business unit’ are also provided.

In response to BCOAPO 2.32.2, BC Hydro noted that, starting in fiscal 2017 and based on discussion with Commission staff, the Utility no longer provides a summary of planned fiscal year capital expenditure information (i.e., item (b) in the preceding list). The rationale for this is that the content was based on the same information as provided in the most recent Appendix I filed in conjunction with revenue requirement applications. However, we note that this will not always necessarily be the case. There is the potential – as acknowledged by BC Hydro – for capital projects to arise that were not identified in the previous RRA filing⁴⁵. In those circumstances, BCOAPO submits that, at the very least, it would be appropriate for the Annual Report to identify new extension projects for which there are anticipated to be capital expenditures in the current fiscal year using the \$5 M materiality threshold previously employed. This information should be accompanied by a qualitative discussion of the potential public interest issues for each new extension project. Our clients submit that such information is necessary in order to permit the BCUC to determine, prior to significant funds being expended, whether there are additional extension projects (apart from those meeting the Major Projects threshold) for which it should direct a CPCN application be filed.

2.1.5 Project-Specific Compliance Reports

The Proposed Guidelines indicate⁴⁶ that BC Hydro will continue to make project-specific compliance filings with the Commission in the manner and form of previous project-specific compliance reports or in a manner or form directed by the Commission. They also indicate that

⁴⁴ Per Exhibit B-16, BCOAPO 2.32.2 the reference to the “current fiscal year” means the following fiscal year subsequent to the period of the Annual Report to the BCUC.

⁴⁵ Exhibit B-16, BCOPAO 2.32.3

⁴⁶ Exhibit B-7, Appendix B, page 5

BC Hydro will continue to file semi-annual project progress reports for most capital projects meeting the criteria for CPCN or section 44.2 applications and that BC Hydro will advise the Commission if it believes annual project progress reports are appropriate for a particular project.

BCOAPO has no specific submissions regarding this section of the Proposed Guidelines.

2.2 Guidelines for IT Capital Expenditures and Projects (Item #2)

The Proposed Guidelines takes the position that a separate Major Projects threshold of \$20 M for Information Technology projects⁴⁷ is appropriate, the same as used in the 2010 Guidelines. Otherwise, there are no separate IT capital project filing guidelines.

Both the supporting discussion⁴⁸ and BC Hydro's Argument⁴⁹ note that the Proposed Guidelines would allow BC Hydro to file section 44.2 applications in two phases if appropriate (as was done for the Supply Chain Applications Project). The Argument also notes that the materiality thresholds used in the RRAs are lower for IT projects than for other capital projects.

Finally, BC Hydro notes that no IT project would meet its proposed definition of "extensions" and therefore require a CPCN⁵⁰.

BCOAPO has no specific submissions with respect to Item #2

2.5 Appropriateness of Expenditure Thresholds in 2010 Guidelines (Item #3)

The Proposed Guidelines set out the following expenditure thresholds (based on the authorized cost estimate) for defining a Major Project⁵¹:

- a) \$100 million threshold for Power System projects;
- b) \$50 million threshold for Buildings projects; and
- c) \$20 million threshold for Information Technology projects

The major difference between the Proposed Guidelines and the 2010 Guidelines is that in the 2010 Guidelines Distribution Projects had a threshold of \$50 M which is being increased to \$100 M⁵².

BCOAPO notes that the change in the materiality threshold for Distribution Projects does not change the number of section 44(2) and 46(1) applications expected over the next decade⁵³.

⁴⁷ Exhibit B-7, Appendix B, page 3

⁴⁸ Exhibit B-7, page 44

⁴⁹ Page 22

⁵⁰ Exhibit B-4, BCOAPO 1.20.3

⁵¹ Exhibit B-7, Appendix B, page3

⁵² Exhibit B-7, pages 38-39

⁵³ Exhibit B-7, pages 39-40

Based on this information and BC Hydro's claim that aligning the thresholds for transmission and distribution will make them easier to apply, BCOAPO has no issues with BC Hydro's proposed changes.

2.3 Application pursuant to section 46(1) versus section 44(2) of the UCA (Item #4)

BC Hydro has committed⁵⁴ to filing an application under section 44(2) for all Major Projects that are not extensions (i.e., would not be considered a Major Project for purpose of filing a CPCN application under section 46(1)).

The Proposed Guidelines also confirm⁵⁵ that BC Hydro will file for a CPCN pursuant to subsection 46(1) of the UCA with respect to public utility plant or system required to serve a new service area and that is not an extension of BC Hydro's existing system.

BCOAPO has not specific submissions with respect to Item #4.

2.4 Other Matters

The discussion regarding the Proposed Guidelines also deals with two related matters. The first is the distinction between capital projects and capital programs. The second is how the Company's strategies, plans and studies related to capital expenditure projects.

2.4.1 Programs vs. Projects

In the supporting discussion BC Hydro explains⁵⁶ that it uses two main types of "programs" to efficiently implement work: Programs of Projects and Recurring Capital Programs.

Program of Projects

A Program of Projects is a group of related projects with common business drivers and or technical characteristics managed in a coordinated way to deliver a common business requirement or achieve delivery efficiencies by sharing teams, resources, and information technology environments. The projects are managed together to reduce risk and achieve efficiencies and other delivery benefits not available if managed individually.

Funding and approval of Programs of Projects is typically carried out in one of three ways⁵⁷:

⁵⁴ Exhibit B-7, Appendix B, page 4

⁵⁵ Exhibit B-7, Appendix B, page 4

⁵⁶ Exhibit B-7, page 46

⁵⁷ Exhibit B-7, page 47

- 1) Each individual project's need, alternatives, cost, and project execution strategy is assessed independent of other projects in the Program to determine if each project will be initiated and implemented (i.e. to ensure each project has a separate and valid business case).
- 2) The need for the projects within the Program is assessed together in the Identification Phase. However, each individual project's alternatives and forecast cost are evaluated independent of other projects in the Program, and released with separate business cases into the Feasibility Stage or Definition Phase.
- 3) The Program is evaluated and funding is approved with a single business case for all stages of the Program's lifecycle. This approach is usually used for low risk, repeatable projects.

In the Proposed Guidelines BC Hydro has committed⁵⁸ to including in its RRA filings an indication of which capital expenditure projects above the materiality threshold⁵⁹ are part of Program of Projects.

BCOAPO generally accepts BC Hydro's proposal⁶⁰ that as projects within a program are initiated, they should be reviewed as individual projects in a revenue requirements application and, if the project exceeds the Major Projects threshold, in a Major Project filing. The only exception is the third category of programs listed above where the program is evaluated and funding is approved with a single business case for all stages of the program's lifecycle. In this case since there is a single business case for all projects within the program review BCOAPO submits that review and approval should take place at the program level.

BCOAPO's only other submission related to this topic is that when identifying whether a capital project is part of Programs of Projects BC Hydro should specifically note those instances where the project concerned is the first project the BCUC will be reviewing as part of a Program of Projects. BCOAPO's rationale is that it is at this early stage life of a Program that its implications and potential impacts on specific projects is best considered.

Recurring Capital Programs

There are two sub-types of recurring capital programs – work programs and acquisitions⁶¹:

⁵⁸ Exhibit B-7, Appendix B, page 3

⁵⁹ Based on the response to BCOAPO 2.43.2, BCOAPO understands this materiality threshold to be \$5 M for all projects except IT where the threshold is \$2 M.

⁶⁰ Exhibit B-7, page 48

⁶¹ Exhibit B-7, pages 46-47

- 1) Work Programs consist of repeatable work units that are grouped to deliver an aggregate benefit, and are annual recurring expenditures. These programs are usually planned and approved as a unit. An example would be wood pole replacement.
- 2) Acquisitions are related to one-time and recurring annual Information Technology purchases. Examples of this include purchases of data network equipment, data centre equipment, user access tokens, business software licenses, enterprise application licenses, personal computers, and mobile phones.

The Proposed Guidelines indicate that Recurring Capital programs are best reviewed in a revenue requirements application⁶².

BCOAPO has no specific submissions with respect to review of Recurring Capital programs.

2.4.2 Strategies, Plans and Studies

In the supporting discussion⁶³ BC Hydro proposes to include in revenue requirements applications:

- As part of the list of capital expenditures and additions over the materiality limit an indication of the particular strategy plan or study the project is linked to, and
- In a new Appendix, summary descriptions of the issues and solutions addressed in any of the identified strategies, plans, and studies.

BC Hydro has also indicated that it will continue to provide any applicable final and approved strategies, plans, and studies in CPCN or expenditure schedule applications, including the most recent Information Technology Five-Year Strategic Plan.

In BC Hydro's view this will allow for an efficient review of projects linked to strategies, plans and studies⁶⁴. However, BC Hydro's position is that filing strategies, plans or studies for approval would not be feasible or consistent with the UCA⁶⁵.

It is BCOAPO's view that any review of strategies, plans or studies is best done within the context of the review of a specific capital project. The implications of a strategy/plan/study are best understood by assessing how they have impacted the decision making regarding specific capital projects. To facilitate and focus such considerations BC Hydro should specifically note in the RRA filing those instances where the project concerned is the first project the BCUC will be reviewing in the context of a particular strategy/plan/study. This could be done in Appendix I.

⁶² Exhibit B-7, Appendix B, page 3

⁶³ Exhibit B-7, page 54

⁶⁴ Exhibit B-7, page 55

⁶⁵ Argument, page 54

Conclusion

BCOAPO, like CEC, is concerned by the narrow scope of the information BC Hydro is proposing in this application to provide to the Commission although we are heartened by the Utility's good faith efforts to respond to customer concerns. They simply do not, in our view, go far enough. Most of this submission has been made with the view of simply responding to BC Hydro's very conservative submissions with a "fall back" or "worst case scenario" response but we, like CEC, feel that there remains a great deal of work that could be done to build on what both BC Hydro and CEC have filed to find a workable solution that is not only reasonable and practicable for the utility and the Commission, but that provides an adequate level of oversight to ensure no responsible opportunities for financial savings are left on the table: the ability to find those when necessary has certainly been demonstrated in recent years. We trust that we have, in our submissions, made it clear that we do not consider BC Hydro's position to be an acceptable final result, however well-intentioned it might be, but instead a positive first step or initial framework that requires further refinement and improvement, including those suggested by our fellow ratepayer group, the CEC. Although it might look that the approaches proposed by BC Hydro and the CEC are incompatible, there remains significant potential for collaboration among the Utility, Interveners and the Commission to develop a satisfactory framework for capital oversight, taking points from each proposed model.

All of which is respectfully submitted.

Sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by

Leigha Worth
Executive Director | General Counsel

Original on file signed by

Irina Mis
Staff Lawyer