

David Ince, P. Eng.

RE: BC HYDRO F2020–F2021 REVENUE REQUIREMENTS APPLICATION

Comments on Oral Responses to Panel Questions made to BC Hydro

I write in response to the British Columbia Utilities Commission’s letter dated June 2, 2020 (Exhibit A-34), regarding issues raised during the oral phase of argument, and BC Hydro’s submissions from oral argument made on Friday June 12, 2020.

This intervenor does not disagree with BC Hydro’s responses to the other questions raised; nevertheless, I hereby submit comments pertaining to the BCUC Series 6 questions, specifically the prospect of a BCUC Advance Assessment of Applicability of the GRR. This intervenor respectfully encourages the BCUC to quickly follow up on this.

Mr. Bystrom, in his oral submission of June 12, 2020 (starting Page: 2972) indicated:

“ . . . once the argument phase here is done BC Hydro will be carefully considering the issues involved and will be reaching out to BCUC staff in due course to explore potential options.”

He then proceeded to summarize a number of issues and challenges related to an advanced assessment; most of these are administrative. Without addressing these issues singly, the best interest of ratepayers will be served by an advanced assessment of substantial GRR projects that ultimately prevents significant stranded costs, or policy-related expenditures that are better made by taxpayers and not ratepayers.

This regulatory process, although focused on the Test Years, highlighted the dominant influence on rates of policy-driven expenditures. Two relatively recent examples: the first being long-term purchases of energy from Independent Power Producers. The resulting multi-decade contractual commitments have an aggregate (nominal) cost of over \$50 billion, and result in one of the highest cost components to ratepayers. A second is the Northwest Transmission line, with an ultimate cost of close to \$1 billion, the practical outcome being the servicing of a single industrial customer site and a small number of residential accounts that could have been more cost-effectively supplied locally.

Regulatory scrutiny of long-term BC Hydro expenditures and commitments is increasingly warranted given the consequences of Covid-19, which has already substantially reduced BC Hydro’s electricity demand. This is expected by BC Hydro to persist, with a demand drop of 12% by the spring of 2021, according to a BC Hydro press release. This demand destruction has to date largely been driven both by lower activity and attendance at commercial and industrial sites. Although net residential energy demand has not substantially dropped, the sector peak has shifted and flattened substantially due to electricity users rising later in the day; the weekday demand profile now resembles the weekend profile.

The pandemic will continue to challenge key BC sectors, particularly tourism and travel, forestry, mining, oil and gas and all export-related industries. After the Great Recession of 2008/09, BC Hydro electricity demand and overall (provincial and global) economic growth dropped to a ‘new normal’ state, with BC Hydro’s electricity demand in 2019 approximately the level in 2007. Unless there is a historically unprecedented rebound in economic activity, the effect of the pandemic will be BC Hydro being in a net energy and capacity surplus for many decades to come.

https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/news-and-features/BC%20Hydro%20Report_COVID19_DemandDilemma.pdf

The financial consequences of the pandemic to all levels of government will unquestionably be severe, with greater social assistance obligations, an escalating range of stimulus programs, and lower tax revenues. In this environment, it is unclear as to whether additional government policy initiatives (environmental or otherwise) can actually be implemented. If for example, BC Hydro were to commit to implementing broad electrification, affordability would be challenging, and long-term expenditures made by BC Hydro could be ultimately stranded due to financial pressures and policy reversals.

The pandemic could also result in British Columbia and Canada making significant progress towards its GHG reduction goals, through the most challenging means possible – through economic destruction.

Recommendation:

In his letter of June 15, 2020, Mr. Chris O’Riley provided the helpful comment:

“...as I described during the hearing, we have been encouraging a culture that embraces regulation as important and beneficial.”

Despite the administrative challenges cited by Mr. Bystrom, an efficient advanced assessment process by the Commission is possible and is necessary, with the goal of minimizing potential stranded costs. Intervenor groups should be involved, subject to time and confidentiality constraints.

The timing and resource commitments involved in a streamlined review process are undoubtedly challenging, but given the magnitude of potential expenditures and associated long-term commitments under the GGRR, and the potential for realizing efficiencies, the associated regulatory process would be a prudent bargain.

Additional Comment:

I worked with Mr. Ajay Kumar while I was at BC Hydro and I found him to be among the most knowledgeable, effective, and helpful staffers in the organization. He conducted himself with the utmost integrity. Mr. Kumar’s Hearing cross examination responses to my questions were among the most transparent, fulsome and useful of the BC Hydro witnesses.