

June 18, 2020

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British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

**Attention: Marija Tresoglavic, Acting Commission
Secretary**

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Your reference	Our reference
Project No. 1598990	1001107464

Dear Ms. Tresoglavic:

**BC Hydro F2020-F2021 Revenue Requirements Application (RRA)
Association of Major Power Customers of BC (AMPC)
Oral Phase of Argument Submissions**

We are legal counsel to AMPC in this matter and write on its behalf to file AMPC's submissions on the oral phase of argument in the above-noted proceeding.

If you have any questions, please contact the writer.

Yours very truly,



For: Matthew D. Keen

MDK/roe

Encl.

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BRITISH COLUMBIA UTILITIES COMMISSION

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
F2020 to F2021 REVENUE REQUIREMENTS APPLICATION
PROJECT NO. 1598990**

**SUBMISSIONS OF THE ASSOCIATION OF MAJOR POWER CUSTOMERS OF BC ON
ORAL PHASE OF ARGUMENT**

June 18, 2020

Association of Major Power Customers of BC (“AMPC”)

BC Hydro Fiscal 2020 to Fiscal 2021 Revenue Requirements Application (“RRA”)

SUBMISSIONS ON ORAL PHASE OF ARGUMENT

I. Introduction

1. These are the Submissions of AMPC on the oral argument phase of the RRA proceeding. Further to the process established by the Commission,¹ AMPC responds to the Commission’s questioning of BC Hydro on June 12, 2020.²
2. This written submission deals with: (i) BC Hydro’s property purchases for future substation projects and (ii) project write-off costs, as set out in greater detail in the sections below. AMPC’s full positions on these topics were provided in its Final Argument (in Appendix K and Appendix J, respectively).³ AMPC also provides its comments on BC Hydro’s additional submission, dated June 15, 2020, regarding the Commission Panel’s comments about BC Hydro’s transparency with respect to compliance with Mandatory Reliability Standards (MRS) and vegetation management standards.
3. AMPC has limited these Submissions to targeted responses on specific topics and has not attempted to reply to every issue raised during the oral argument phase. However, AMPC’s silence on a particular topic should not be taken as agreement with BC Hydro’s position.

II. Property Purchases for Future Substation Projects

4. As part of the oral argument phase, the Commission asked BC Hydro whether the inclusion in rate base of the properties acquired for West End Substation Construction Project and the East Vancouver Substation Construction Project, prior to the development of the respective substations, is in accordance with Direction No. 8.⁴
5. In response, counsel for BC Hydro answered in the affirmative, submitting that: (i) from an accounting perspective the properties constitute “property in service”, and (ii) their inclusion in rate base is also consistent with the standard regulatory principles employed to determine rate base (namely, the “used and useful” test).⁵ However, counsel was clear that the accounting perspective “gives you a full answer”.⁶
6. AMPC submits that the application of regulatory principles should govern the Commission’s interpretation of Direction No. 8 and subsequent determination of whether or not these properties should be included in rate base. The accounting rules applied by BC Hydro in the circumstances are not determinative of the issue and do not provide a “full answer”.

¹ Exhibit A-34.

² Transcript Volume 16.

³ AMPC Final Argument, dated May 4, 2020, paras. 269-297.

⁴ Exhibit A-35, Question 3.1, pdf p. 4.

⁵ Transcript Volume 16, p. 2930, l. 17 – p. 2934, l. 6. See also p. 2938, l. 24 – p. 2939, l. 3.

⁶ Transcript Volume 16, p. 2931, l. 20.

7. More generally, however, AMPC notes that these properties have a total combined purchase price of over \$110 million,⁷ a substantial amount. Although BC Hydro correctly noted that the inclusion of these properties in rate base would not affect rates in the test period (since BC Hydro's return is currently set by Government Direction No. 8),⁸ AMPC's concern is that if and when BC Hydro's rate base has a direct impact on rates, the Commission should consider the treatment of these properties at that time carefully. For example, these properties may be best classed as not in service, or held for future use, and hence subject to a less than full return.⁹
8. In response to questions, BC Hydro also noted that both the "used and useful" and "prudent acquisition" tests are applied in determining whether property can be included in rate base, conceding that if the Commission were to conclude that the acquisition of a particular property was imprudent, that property could be disallowed from rate base.¹⁰
9. However, in the case at hand, BC Hydro will only be providing the information necessary to assess the prudence of the Vancouver substation property acquisitions years from now, when it files the CPCN applications for the respective substation projects.¹¹ For example, at the oral hearing Mr. Leonard noted that BC Hydro did a "30-year present value" on each of the Vancouver substation sites, which included working with brokers, and that BC Hydro would be filing "all of the information on the property acquisition", including the alternatives considered, when it files the CPCN applications.¹² BC Hydro has thus not yet provided the information necessary to assess the prudence of the property acquisitions in this proceeding. By this standard, in the normal course, the Commission should wait until the corresponding CPCN applications are filed to decide whether or not to include the Vancouver substation properties in rate base.
10. On this basis, AMPC reiterates its argument submission that the Commission should carefully assess what return, if any, should be earned on these large early-acquired assets following the pending rate of return proceeding.¹³

⁷ Transcript Volume 12, p. 2244, ll. 9-21; Exhibit B-16, BCUC IR 3.291.2, pdf p. 16; Exhibit B-5, BCUC IR 1.118.1.1, pdf p. 1312.

⁸ Transcript Volume 16, p. 2943, l. 17 – p. 2944, l. 3.

⁹ See, e.g., [Terasen Gas – CPCN Tilbury Property Purchase, Exhibit B-2](#), BCUC IR 1.3.3 and 1.3.4, pdf p. 11 ("In reference to James E. Suelflow's book *Public Utility Accounting: Theory and Application* (p.168), "property and plant which is currently not used by the utility in producing its service," should be excluded from rate base considerations") and [Corix Application for a CPCN for UniverCity, BCUC Order G-215-15](#), Appendix A, pdf p. 10, respectively.

¹⁰ Transcript Volume 16, p. 2940, ll. 14-20.

¹¹ BC Hydro is not planning to file a CPCN application for the West End Substation Construction Project until fiscal 2023 (Exhibit B-5, BCUC IR 1.117.2, pdf p. 1305; Transcript Volume 12, p. 2244, ll. 22-24), and it has not yet determined when it will file a CPCN application for the East Vancouver Substation Construction Project (Exhibit B-5, BCUC IR 1.118.2, pdf p. 1316; Transcript Volume 12, p. 2252, l. 24 – p. 2253, l. 2).

¹² Transcript Volume 12, p. 2246, ll. 17-24 and p. 2249, l. 17 – p. 2250, l. 1.

¹³ AMPC Final Argument, dated May 4, 2020, paras. 288 and 296.

III. Project Write-off Costs

11. The Commission also asked BC Hydro to clarify why it is now proposing to recover forecast project write-off expenses from ratepayers, when in the past its practice was to have these costs borne by the shareholder. The Commission in particular asked whether there was a change in BC Hydro's capital planning and delivery process that prompted this change.¹⁴
12. In response, counsel for BC Hydro noted that "the proposal was not prompted by a change in the capital planning and delivery process", but rather "by a reassessment of how a regulatory principle should be applied in the context of a mature capital planning process".¹⁵
13. Notably, Mr. Ghikas pointed to the fact that BC Hydro's capital planning program has been recognized as "mature" by third parties,¹⁶ as support for the proposition that BC Hydro's project write-off forecast is "reasonable and that BC Hydro's sound practices should be encouraged".¹⁷ In contrast, however, at the oral hearing Ms. Pinksen confirmed that she was not aware of any other utility in Canada that takes a similar approach to forecasting project write-off expenses.¹⁸
14. BC Hydro has long had a mature capital planning program, as have other regulated utilities across Canada, and the fact that BC Hydro has been unable to provide any examples of other utilities that follow a similar approach to recovering project write-off expenses is therefore significant.
15. For the reasons set out in AMPC's Final Argument, BC Hydro's proposed recovery of project write-off expenses on a forecast basis remains an unsupported and theoretically unsound approach that should be rejected.¹⁹

IV. BC Hydro's Additional Submission

16. BC Hydro filed an additional submission, dated June 15, 2020, as a result of certain comments made by the Commission Panel during oral argument, particularly Commissioner Morton, regarding BC Hydro's transparency with respect to compliance with MRS and vegetation management standards. In this submission, Mr. O'Riley, BC Hydro's CEO, said that he believes it is "deeply unfair to impugn the candour and transparency" of BC Hydro's witness (Mr. Kumar), especially "when the Commission did not ask him to clarify at the time during the oral testimony when it clearly had a residual concern".²⁰

¹⁴ Exhibit A-35, Question 7.1, pdf p. 8.

¹⁵ Transcript Volume 16, p. 2979, ll. 4-13.

¹⁶ Transcript Volume 16, p. 2980, ll. 23-25.

¹⁷ Transcript Volume 16, p. 2981, l. 26 – p. 2982, l. 4.

¹⁸ AMPC Final Argument, dated May 4, 2020, para. 274; 6 Transcript Volume 12, p. 2241, ll. 22-24 and p. 2242, ll. 23-25.

¹⁹ See for example: AMPC Final Argument, dated May 4, 2020, paras. 275-276 and 283-284.

²⁰ BC Hydro Additional Submissions, dated June 15, 2020, p. 2.

17. AMPC has no concerns regarding Mr. Kumar’s candour with respect to the testimony at issue, but likewise did not find the Commission Panel’s efforts to address the issue of onus, and ensure that BC Hydro’s public testimony was complete, to be inappropriate.

All of which is respectfully submitted this 18th day of June, 2020.

Norton Rose Fulbright Canada LLP



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