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April 8, 2011

Ms. Erica M. Hamilton
Commission Secretary
British Columbia Utilities Commission
Sixth Floor – 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

RE: Project No. 3698622
British Columbia Utilities Commission (BCUC)
British Columbia Hydro and Power Authority (BC Hydro)
F2012 to F2014 Revenue Requirements Application (F12-F14 RRA or
Application)

BC Hydro writes to provide its submissions further to Order No. G-61-11 in this proceeding. These submissions address the following topics:

- a) further information regarding the government review of BC Hydro;
- b) further process in this proceeding;
- c) BC Hydro's proposed establishment of an interim rate increase of 8.23 per cent, effective May 1, 2011;
- d) the establishment of a mechanism to allow BC Hydro the opportunity to recover in rates the full amount of its F2012 revenue requirement as approved by the BCUC upon completing its review of the Application;
- e) a request for clarification of Order No. G-61-11;
- f) COPE's request for a discovery process regarding BC Hydro's plans for the expiry of its arrangements with Accenture; and
- g) the currently scheduled procedural conference on April 20, 2011.

1. Government Review of BC Hydro

At the March 25, 2011 procedural conference, BC Hydro proposed, among other things, to provide whatever clarification it could with regard to government's review of

BC Hydro. As noted, BC Hydro was unable to provide the BCUC, at that time, with any information regarding the scope or timing of the review, or the mechanisms by which the results of the review might be effected.

On April 7, 2011 the Ministry of Energy and Mines and Minister Responsible for Housing issued a news release and terms of reference regarding the government review. Both documents are attached (Attachment 1 and 2 respectively). As is apparent, the scope of the review is broad, including a review of capital and operating expenditures, and “other matters that may arise over the course of the review”. By June 30, 2011, the panel appointed to conduct the review is to provide recommendations and options to the Minister of Energy and Mines and the Premier. Further, a final report containing recommendations will be made public. Ultimately, the government review is meant to inform the Application through consequential amendments to it. What remains unknown are the mechanisms by which any accepted recommendations arising from the review would be effected and, in turn, the timing of any consequential amendments to the Application. However, BC Hydro expects that such a filing could not be made prior to August 2011, given the scope of the review.

2. Process Going Forward

With respect to further process in the F12-F14 RRA proceeding please refer to the attached Terms of Reference, which state: “This review will not alter or interfere with the normal, more detailed rate increase review which BCUC undertakes pursuant to its statutory authority.” BC Hydro’s position regarding further process is consistent with this expectation.

3. Interim Rates Going Forward

In the Reasons for Decision accompanying Order No. G-61-11, the BCUC directed BC Hydro to provide further written submissions regarding the current interim rates, and whether they ought to be subject to any increase at this time. BC Hydro proposes that the BCUC order an interim average rate increase of 8.23 per cent, effective May 1, 2011, with the average rate increase being applied to each element of BC Hydro’s tariff as described in Appendix X to the Application. The requested average rate increase of 8.23 per cent is 1.5 per cent less than the average rate increase of 9.73 per cent requested in the Application.

In BC Hydro’s submission it is apparent that not increasing the current interim rates by some amount pending the filing by BC Hydro of any consequential amendments to the Application will exacerbate the tensions between the objectives of maintaining intergenerational equity, minimizing rate shock, and maximizing rate stability (all of which would cause the BCUC to increase rates by some amount now, rather than by a greater amount later) and not subjecting customers to a higher interim rate increase than is equitable in these unusual circumstances.

To get a sense of the magnitude of the issue, assume an August 15, 2011 amendment to the Application, no increase in the interim rates until September 15, 2011, and an increase in the interim rates of 8.23 per cent at that time. On that basis, BC Hydro's revenue deficiency from April 1, 2011 to September 15, 2011, would amount to approximately \$110 million. That revenue deficiency would have to be recovered from customers at a later time, putting further upward pressure on rates in the future. The impact of putting off required rate increases into the future can be quite significant in terms of per cent rate increases. If the revenue deficiency of \$110 million was recovered in equal amounts in each of F2013 and F2014, the effect would be a rate increase in F2013 1.4 per cent higher than it would otherwise be. If that revenue deficiency was to be recovered after the test period (i.e., in F2015 or later) the final closing balance of BC Hydro's regulatory accounts at the end of F2014 would, all else being equal, increase from \$4.7 billion to \$4.8 billion. Simply put, a denial of any interim rate increase would unfairly benefit current ratepayers at the expense of future ratepayers.

These concerns were alluded to by counsel for the BCOAPO at T1: 19/4-8.

Further, BC Hydro submits that while there is no basis in the evidence to increase interim rates higher than 13.89 per cent,¹ it is a matter within the BCUC's discretion with respect to interim rate relief to increase interim rates at some lesser level. That is, while the BCUC is bound in law to establish a revenue requirement for each fiscal period that meets the statutory requirements, it may through regulatory accounts amortize the year-to-year increase in revenue requirements to achieve rate objectives relating to intergenerational equity, minimizing rate shock, and maximizing rate stability.

A further benefit of establishing an increase in the current interim rates at this time is that it would enable the application of the pricing principles that have been recently established by the BCUC for BC Hydro's residential inclining block (RIB), medium general service (MGS) and large general service (LGS) customers. In this regard, BC Hydro refers to its application of March 30, 2011 and the BCUC's subsequent Order No. G-62-11 (part of Exhibit A2-8). BC Hydro notes that in order to effect the pricing principles in tariff rates by May 1, 2011, an order increasing the current rates by some amount would need to be issued by April 21, 2011.

4. Recovery of Revenue Deficiency

BC Hydro expects that in its Application amendment filing it will request the establishment of a mechanism to enable BC Hydro the opportunity to earn its F2012 revenue requirement as approved by the BCUC upon completion of its review of the Application. BC Hydro notes that the use of regulatory accounts for that purpose was

¹ On the evidence, and in the absence of BC Hydro's proposed rate smoothing mechanism, an average rate increase of 13.89 per cent on April 1, 2011 would be required to allow BC Hydro the opportunity to earn its F2012 revenue requirement (sections 1.3.5.5 and 2.3.4 of the Application).

referred to by counsel for the BCOAPO at the recent procedural conference,² and that a regulatory account was employed for that purpose in the F07/F08 RRA proceeding. BC Hydro is not applying now for the establishment of the account because the materiality of the balance of the accounts and therefore the need for the accounts remains uncertain pending the BCUC's decision on the issue of interim F2012 rates.

5. Confirmation Regarding Current Interim Rates

BC Hydro notes that the specific wording of Order No. G-61-11 is, arguably, inconsistent with the Reasons for Decision accompanying the order. The former states that "Commission Order No. G-41-11 regarding interim rates is suspended subject to further Order of the Commission ...". At page four of the Reasons for Decision, it is said that "the Commission suspends the rate increases approved in Order No. G-41-11." On the face of it, the scope of the order suspending the entirety of Order No. G-41-11 is broader than the Reasons for Decision, which suspend only those elements of Order No. G-41-11 that increase the interim rates.

Order No. G-41-11 has four elements. The fourth, regarding notification to customers, is spent. The first and second elements approve the applied for rate increases on an interim and refundable basis. However, the second element also approves the *continuation* of the Deferral Account Rate Rider (DARR) at 2.5 per cent, on an interim and refundable basis, while the third element states that the "interim rate increases and interim continuation of the DARR are both subject to adjustment with interest at BC Hydro's weighted average cost of debt for its most recent fiscal year." Nothing in the Order No. G-61-11 Reasons for Decision suggest that the BCUC intended to suspend the elements of Order No. G-41-11 that continue the DARR at 2.5 per cent or make the rates subject to adjustment with interest, and BC Hydro assumes that the words in the Reasons for Decision accurately capture the intended effect of Order No. G-61-11. BC Hydro seeks confirmation from the Commission on this point.

6. COPE's Request Regarding BC Hydro's Arrangements with Accenture

COPE's submissions regarding the plans BC Hydro is making now regarding the March 31, 2013 expiry of the Amended Master Services Agreement (AMSA) with Accenture, including the disclosure of BC Hydro's Long Term Sourcing Strategy, are made in Exhibits C2-2 and C2-3, and at T1: 55/17-59/1. BC Hydro's response to those submissions are at T1: 46/21-55/13. BC Hydro reiterates that it is making only one irrevocable decision in the near future regarding its outsourcing plans and Accenture, namely whether it will continue to seek a renewed arrangement with Accenture. Such a decision will be informed by the final scope of services, performance levels and pricing BC Hydro anticipates would be contained in any final binding contract or contracts with Accenture. Nevertheless the near future decision does not "lock-in" any financial or service obligations after March 31, 2013. Regardless, BC Hydro does not object to

² T1: 19/4-8.

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information requests put to it by the BCUC on the topic, whether on the record of this proceeding or not, if the BCUC feels it needs the information to meet its own statutory obligations before its consideration of the F12-F14 RRA can continue.

7. April 20 Procedural Conference

A further procedural conference is scheduled in this matter for Wednesday, April 20, 2011. However, interveners have a right to respond to these submissions by April 13, 2011. In light of all the foregoing, BC Hydro is not certain that the April 20, 2011 procedural conference needs to proceed, provided it has an opportunity to respond in writing to intervener submissions by Friday, April 15, 2011. Setting aside the April 20, 2011 procedural conference would also facilitate a quicker decision regarding BC Hydro's request for an interim F2012 rate increase, easing the pressure on the BCUC to issue an order within a day (Thursday, April 21, 2011) of the procedural conference to allow any interim rate increase to go into effect on May 1, 2011. Accordingly, BC Hydro invites other participants in this proceeding to comment on this issue.

For further information, please contact the undersigned.

Yours sincerely,



Joanna Sofield
Chief Regulatory Officer

jf/af

Enclosure (2)

Copy to: BCUC Project No. 3698622 (F12-F14 RRA) Registered Intervener Distribution List.



NEWS RELEASE

For Immediate Release
2011ENER0011-000351
April 7, 2011

Ministry of Energy and Mines
and Minister Responsible for Housing

Review of BC Hydro aims to lower rate increases

VICTORIA – The government of British Columbia has appointed a panel of senior officials to review BC Hydro and develop options to reduce the impact of hydro rate increases on B.C. families.

“Our government’s priorities are to create jobs, build our economy, and support families,” said Energy and Mines Minister Rich Coleman. “Our goal is to find the right balance between investing in our hydro system, while keeping rates as low as possible for B.C. families – and this review will help us do just that.”

The panel will conduct an examination of BC Hydro’s financial performance, including operating and capital requirements, reliability of forecasting systems, administrative expenses, procurement processes, cost-containment strategies and opportunities for savings. The panel will also consider rate structures, corporate structures and business planning. The panel members are also free to examine any other matters that may arise over the course of the review.

The objective of the review is to provide recommendations and options to ensure costs are minimized and benefits to B.C. families and BC Hydro customers are maximized. The panel will report back to the Premier and Minister of Energy and Mines by the end of June 2011.

“I have every confidence this will be a very thorough review and I look forward to receiving the report,” said Coleman. “I’m sure it will lead to some frank discussions about the challenges, solutions and opportunities ahead.”

Ultimately, the recommendations will inform an amended BC Hydro rate application to the BC Utilities Commission (BCUC). Any amendments to the rate application will be assessed and approved by the BCUC through its open public hearing process.

The three panel members are:

- deputy minister to the premier, John Dyle
- deputy minister of finance, Peter Milburn
- associate deputy minister of the environmental assessment office, Cheryl Wenezenki-Yolland

Following completion of the review, a final report containing recommendations will be made public. The panel may also recommend specific areas or topics for the government to review in greater depth.

“British Columbians are incredibly proud of BC Hydro,” said Coleman. “The investments made 30, 40 and 50 years ago literally powered B.C.’s development. To protect that legacy, to create jobs and power our economy, we need to invest in BC Hydro. But we also need to minimize costs and take care about burden we’re placing on families.”

The government review does not replace the normal, more-detailed rate increase examination conducted by the BCUC, which will resume after government’s review.

The report is also expected to help inform discussion of BC Hydro’s Integrated Resource Plan, where the first round of extensive public consultations on B.C.’s long-term energy needs has just been completed.

Learn More:

For a copy of the Review of BC Hydro Terms of Reference:

http://www.mediaroom.gov.bc.ca/newsroom/Terms_of_Reference.pdf

About BC Hydro’s Public Consultations on the Integrated Resource Plan:

http://www.bchydro.com/planning_regulatory/irp.html

About the BC Utilities Commission:

<http://www.bcuc.com/CorpProfile.aspx>

Contact: Jake Jacobs
Ministry of Energy and Mines
250 952-0628
250 213-6934 (cell)

Connect with the Province of B.C. at: www.gov.bc.ca/connect

TERMS OF REFERENCE

REVIEW OF BC HYDRO

BACKGROUND:

BC Hydro is a regulated provincial Crown corporation reporting to the Ministry of Energy and Mines. As the third largest electric utility in Canada, BC Hydro serves 95 percent of the population of the province or approximately 1.8 million customers. In addition, BC Hydro supplies electricity to the province's commercial and industrial users. BC Hydro's primary business activities are the generation and distribution of electricity of which, 90 percent is produced by the company's hydroelectric facilities. Pursuant to legislation, BC Hydro is responsible for providing an efficient and reliable supply of electricity and is required by government to generate and deliver energy in ways that are both environmentally and socially responsible and balance British Columbians' energy needs with the concerns of the environment.

On March 1, 2011, BC Hydro filed its most recent application with the British Columbia Utilities Commission, seeking approval for rate increases of 9.73% for each of the next three years. Significant concerns have been expressed regarding the impact the rate increase will have on BC families and other power consumers. As such the Premier and the Minister of Energy and Mines [on behalf of the Province, as principal of BC Hydro] have appointed a panel to undertake a review of BC Hydro in order to provide recommendations and options for minimizing the rate increase by examining both the operating and capital requirements of the company. Ultimately, these recommendations will inform BC Hydro's final rate submission to the BC Utilities Commission.

The panel members include the Deputy Minister to the Premier, John Dyble, the Deputy Minister of Finance, Peter Milburn, and the Associate Deputy Minister of the Environmental Assessment Office, Cheryl Wenezenki-Yolland. The panel's review will include a financial and administrative review, including consideration to rates structures and may consider corporate governance to the extent it provides opportunities for improved effectiveness and efficiency. The objective of the review is to ensure costs are minimized and the benefits to the province, taxpayers and ratepayers are maximized. The panel will report back to the Premier and Minister by the end of June, 2011.

This review will not alter or interfere with the normal, more detailed rate increase review which BCUC undertakes pursuant to its statutory authority.

PURPOSE & OBJECTIVES:

B-5

The Panel will review and evaluate and, as appropriate, make recommendations respecting the following:

1. Examine BC Hydro's Financial Performance (including)
 - a. Operating costs, the adequacy of cost containment strategies – identify opportunity for savings, efficiencies and economies of scale, review of administrative expenses
 - b. Appropriate planning and utilization of Capital and spending in regard to capital
 - c. Reliability of forecasting and internal systems
 - d. Effectiveness of procurement approaches in achieving maximum value for money
 - e. Effectiveness of and opportunities in regards to revenue structure and rate structure

2. Effectiveness of BC Hydro's Governance Framework (including)
 - a. Organizational Structure - for example have the benefits of the consolidation of BC Transmission Corporation and BC Hydro been realized
 - b. Effectiveness of short and long term business planning

3. Other matters that may arise over the course of the review that the panel deems appropriate

RESOURCES:

Primary support for the panel will be provided by the Ministry of Finance. The panel will draw on expertise from the Ministry of Energy and Mines and other government agencies as necessary and/or may contract for area specific expertise.