

Hunter Litigation Chambers

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April 13, 2011

File no: 1531.006

Via E-Mail - commission.secretary@bcuc.com

Erica M. Hamilton
Commission Secretary
British Columbia Utilities Commission
P.O. Box 250
6th Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

**Re: In the Matter of the *Utilities Commission Act*, R.S.B.C. 1996, c. 473 and British Columbia Hydro and Power Authority (“BC Hydro”)
F2012 - 2014 Revenue Requirements Application (the “F12-F14 RRA”)
Response to Exhibits B-5 and B-6**

We write further to BC Hydro’s correspondence of April 8, 2011 (Ex. B-5) and April 11, 2011 (Ex. B-6) regarding the future process for the F12-F14 RRA.

COPE 378 writes to respond to three matters raised by BC Hydro, specifically:

- (a) COPE 378’s outstanding request for further production regarding BC Hydro’s Long Term Sourcing Strategy (“LTSS”);
- (b) Regulatory Process going forward for the F12 – F14 RRA; and
- (c) Interim rates.

Each of these is addressed below.

COPE’s Request regarding LTSS

First, as a preliminary matter, BC Hydro has mischaracterized COPE’s request. It does not have the narrow focus suggested by BC Hydro, namely BC Hydro’s plans regarding the expiry of the Amended Master Services Agreement (“AMSA”). While it is true that the expiry of the AMSA provides a clear intersection between BC Hydro’s current planning process and its revenue requirements application, COPE’s concern regarding BC Hydro’s current disclosure extends well beyond that discrete event.

As set out in Exhibits C2-2 and C2-3 and COPE’s submissions at the Procedural Conference on March 25, 2011 (T1: 55/17 – 59/1), COPE’s concern relates to the lack of transparency in

the application as it relates to BC Hydro's operating budgets and plans for its outsourcing arrangements. As noted previously, COPE is aware from its discussions with both BC Hydro and Accenture that BC Hydro is using its LTSS to guide its current dealings with Accenture regarding the potential renewal of the outsourcing arrangements under the AMSA. However, the F12-F14 RRA (Ex. B-1) is silent with respect to the LTSS.

A review of the information that has been provided to COPE regarding the LTSS (for example, see enclosed letter dated March 22, 2011 from BC Hydro to COPE) makes it clear that the LTSS applies to more than the question of whether to renew the AMSA. It contemplates a complete restructuring of BC Hydro's outsourcing arrangements. As approximately 75% of BC Hydro's customer care costs relate to the AMSA and other service contracts (see Ex. B-1, pg 5-97), it is remarkable that the F12-F14 RRA fails to mention the LTSS or the potential restructuring of BC Hydro's outsourcing arrangements in any manner. Perhaps equally remarkable is the bare assumption made in the application that BC Hydro's unit costs for the services provided under the AMSA will increase by inflation in F2014, the fiscal year following the expiry of the AMSA (Ex. B-1, pgs 5-99 and 5-100).

In addition, COPE notes that BC Hydro is mistaken in its assertion that it is making only "one irrevocable decision" related to the LTSS and that that decision "does not 'lock-in' any financial or service obligations". At least two decisions arising out of or relating to the LTSS have already been made or are in the process of being made by BC Hydro. BC Hydro has already issued requests for proposal ("RFPs") for both a new web portal and a new data centre. Both of these RFPs (web portal and data centre) clearly carry with them financial implications in terms of both capital and operating costs. While the web portal is referenced in Appendix J to the F12-F14 RRA (see Ex. B-1, App. J, pg xi of xii), there is no mention of the data centre.

COPE understands from its discussions with Accenture and BC Hydro that the new data centre is intended to replace, or at least replicate, BC Hydro's existing, state of the art facility at Edmonds while adding additional capacity to deal with SMI and the smart grid. COPE further understands that replicating the existing data centre has significant capital implications for the project yet none of this is addressed in the current application or, if it is, it is not clear where or how it is disclosed.

It is against this backdrop that COPE's request for production must be measured. COPE repeats its earlier comments that, in its view, it is not seeking an "extraordinary remedy" as characterized by BC Hydro. Rather, what COPE is requesting that BC Hydro's application achieve the level of transparency that is required to ensure that this Commission can fulfill its statutory mandate and that ratepayers can fully understand the basis for the extraordinary rate increases that Hydro seeks in this proceeding.¹ COPE submits that the current level of

¹ While COPE is hopeful that the current Ministerial review of the application will result in some reduction of the rate increases sought by BC Hydro in Ex. B-1, it anticipates that any amended application will still call for relatively significant rate increases.

disclosure in the F12-F14 RRA, at least as it relates to the LTSS and its potential impacts on BC Hydro's capital and operating costs, fails to meet the level of transparency necessary in order to allow for meaningful review.

The foregoing clearly favours early disclosure of information relating to the LTSS, including (without limitation) its current status and any business case or financial analysis performed by BC Hydro in respect of the LTSS or any decisions made under the LTSS. However, COPE appreciates and understands that the landscape of this proceeding has changed in light of recent developments and the pending Ministerial review of the application. In light of this, COPE is prepared to pursue the above noted and other matters relating to the LTSS through the information request processes as this matter moves forward. Depending on what regulatory process is adopted, COPE expects this will include having an opportunity to make information requests following any amendment to the F12-F14 RRA and/or evidentiary update made by BC Hydro in this proceeding.

COPE wishes to note two matters before turning to the other issues raised by BC Hydro in Exhibits B-5 and B-6. First, COPE's willingness to leave matters relating to the LTSS to be addressed in the IR process is based, in part, on BC Hydro's advice at the last Procedural Conference that BC Hydro does not object to the relevancy of questions relating to the LTSS, including those relating to BC Hydro's current outlook with respect to its outsourcing arrangements, the LTSS itself and the current status of its planning efforts surrounding the conclusion of the AMSA in April 2013 (see T1: 53/8 – 54/2). If BC Hydro's position in this regard changes, COPE reserves the right to revisit the foregoing. Second, COPE expects any amendments made by BC Hydro to the application will address – in a substantive manner – the deficiencies it has noted above with respect to disclosure of the LTSS.

Regulatory Timetable

COPE 378 has reviewed the objections raised by the BCOAPO regarding proceeding with the Amended Regulatory Timetable established by BCUC Letter L-25-11 dated March 31, 2011 and supports the position taken by the BCOAPO in Ex. C1-3. While COPE would like to move forward with this matter, it is concerned about the inefficiencies inherent in proceeding with one or more rounds of information requests at this time on an application that may well be significantly different in a few short months for the reasons identified in Mr. Quail's correspondence. The reviews by the panel appointed by the Minister and the Auditor-General are broad in scope and may drastically alter the substance of this application. While BC Hydro notes that there may be factual areas that will not change, it is difficult to predict with any certainty at this time what areas of the application will survive the review in their current form. These factors all militate against proceeding with information requests until such time as there is greater clarity as to what aspects of the application are subject to change.

Regarding the procedural conference scheduled for April 20, COPE 378 is available to participate if the Commission is of the view further submissions on these matters will assist.

While COPE expects that any such conference will be relatively brief, it sees some utility in all parties having the opportunity to present their views and to answer questions from the Commission. That said, COPE will defer to the majority on this issue.

Interim Rate Increase

COPE 378 takes no position in respect of BC Hydro's proposed interim rate increase of 8.23 percent effective May 1, 2011 other than to say that a 1.5% reduction from the original interim increase proposed in the application appears reasonable in the circumstances.

Please call if you have any questions or if you require any further information.

Yours truly,

Hunter Litigation Chambers

Per:



Mark S. Oulton

MSO/bb

cc BC Hydro
Attention: Joanna Sofield, Chief Regulatory Officer

Registered Interveners

Client



FOR GENERATIONS

March 22, 2011

Andy Ross, President
COPE, Local 378
4595 Canada Way, 2nd Floor
Burnaby, BC V5G 1J9

Gwenne Farrell, Vice-President
COPE, Local 378
4595 Canada Way, 2nd Floor
Burnaby, BC V5G 1J9

Dear Andy & Gwenne,

During our meeting with Dave Cobb, on March 7 you raised a number of questions and concerns in regards to BC Hydro's current discussions with Accenture. As committed, we wanted to respond to your questions, and also provide you with the relevant context and overview of our discussions with Accenture.

As you are aware, BC Hydro and Accenture are in discussions around the contracted services under the current Amended Master Service Agreement (AMSA). Given that BC Hydro and Accenture will each be having separate discussions with COPE throughout this process, we felt it important that Accenture be copied on this document so that they are aware of the information we are providing to you.

Long Term Sourcing Strategy (LTSS) Context & Objectives

- The Accenture agreement has largely met or exceeded BC Hydro's original 2003 outsourcing objectives:
 - Cost savings to ratepayers of \$191 million as of F10;
 - Improved service performance – Accenture employees have been able to deliver services in all Towers that meet or exceed BC Hydro service baselines;
 - Ongoing employment for Accenture employees based in B.C.
- BC Hydro's agreement with Accenture is now in its 8th year and expires on March 31, 2013.
- BC Hydro has developed a LTSS to address the upcoming agreement expiration and to deliver future cost savings and better service to our ratepayers.
- BC Hydro is looking to its LTSS to deliver the following objectives:
 - **Cost:** incremental cost savings through the continued use of outsourcing to help minimize the impact to customer rates;
 - **Service Performance:** leverage the best of the marketplace in terms of technology, skills and innovation to improve service outcomes;
 - **Ease of Business:** enable greater flexibility and transparency to accommodate future growth and change;
 - **Value:** align to BC Hydro's priorities and the business drivers set out in the Clean Energy Act to foster regional, First Nations and economic development;
 - **Risk:** balance cost, service performance and value against associated risks; and

- **Relationship:** build a trust based relationship as with all of our suppliers.
- Conclusion of a collective agreement between COPE and Accenture would enable Accenture to be in a better position to meet these five objectives and meet BC Hydro's business needs.

LTSS Scope and Structured Discussion Overview

- As a long term partner, BC Hydro is giving Accenture an opportunity to pursue restructuring our current agreement to meet our future business needs.
- Since the beginning of the original Accenture agreement it was envisioned that BC Hydro would discuss the future of the agreement with Accenture in advance of the end of term.
- BC Hydro and Accenture have entered into discussions for a restructured scope of services and will follow a structured "time bound" process between February 2011 and June 2011.
- The scope of services to be restructured are similar to the current services (Customer Care, Finance, IT, HR and Office Services).
- Given the emerging business needs of BC Hydro, the decision was made to take the Data Centre out to RFP. This RFP was released to the market on February 17 and Accenture is able to bid on this RFP.
- By late April BC Hydro will review the Accenture proposals and make a recommendation on whether or not to continue with the discussions. If BC Hydro and Accenture are not able to come to terms for the restructured scope of services, BC Hydro will then go to the market. Should BC Hydro determine to go to the market, it is BC Hydro's intention to exclude Accenture as a proponent or participant in this procurement process.

Potential People Impacts Resulting from LTSS and Potential Changes to the AMSA

At our meeting, you requested information related to the expected impact on COPE members at both BC Hydro and at Accenture resulting from SMI and changes to the AMSA agreement. We are unable to provide responses to some of these questions since they are matters between Accenture and COPE. However, we are able to provide the following information:

- You asked whether COPE members at Accenture could be affected prior to the expiry of the current AMSA. We are currently in LTSS discussions and the outcomes are not known at this time. We are not in a position to answer for Accenture about their short or long term resourcing plans.
- You asked whether the work currently carried out by Accenture will remain with BC contractors if an agreement with Accenture is not extended. Given that these discussions with Accenture are ongoing, it would be premature to speculate on the outcome. However, as you may be aware, BC Hydro as a crown corporation is bound by the New West Partnership Trade Agreement (NWPTA) and Agreement on Internal Trade (AIT).
- As with any decision regarding a large contract at BC Hydro, this decision lies with BC Hydro's executive and Board.
- The impacts on meter readers at Accenture from the SMI initiative were raised as a concern. I understand that Al Leonard and Fiona Taylor met with you on February 4th and gave you some preliminary information. At this meeting, they advised you that the smart meter deployment plan wouldn't be ready to be shared with Accenture until spring 2011. They also committed to meet with you regularly and give you updates as they become available. By

copy of this letter, I will ask them to contact you to set up a follow up meeting in the next few weeks.

- In addition, you raised the question of whether BC Hydro could provide preferential consideration and information for Accenture meter readers impacted by SMI. BC Hydro will have a need for some limited ongoing meter reading and associated support functions. These services are part of the LTSS discussions. At our meeting, we indicated our openness to have discussions with COPE about providing preferential consideration to qualified Accenture applicants for externally posted positions as well as providing information on BC Hydro career streams and job requirements.
- Finally, you raised the question of whether BC Hydro was willing to take any steps to assist in future employment opportunities for COPE members at Accenture who might be impacted by potential changes to the AMSA. As suggested above relating to the impacts of SMI, BC Hydro indicated our openness to discussions with COPE around preferential consideration for qualified Accenture staff on externally posted positions as well as providing information on BC Hydro career streams and job requirements.

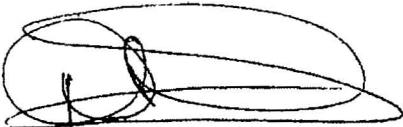
We appreciate that you have many questions regarding the status of your members both at Accenture and BC Hydro. As I'm sure you appreciate, Accenture is the employer of their staff and responsible for resourcing their own needs. If you have questions about impacts on Accenture staff please raise them with Accenture directly.

COPE's Media Release

In our meeting with Dave, we also talked about the importance of trust based relationships between union and management. Therefore, we were surprised and disappointed by COPE's media release March 17. For COPE's leadership to suggest plans are underway to break up BC Hydro is misleading and simply untrue. We remain hopeful that we can move forward and work with the COPE leadership in a way that benefits BC Hydro employees as we have done in the past.

We trust this information is helpful and encourage you to stay in contact with us to ensure you have the most up to date information we can provide. As more information becomes available on LTSS and SMI, BC Hydro is willing to meet with you again and provide updates.

Sincerely,



Debbie Nagle
BC Hydro
Senior Vice President & Chief Human Resources Officer

c: David Cobb, President & CEO, BC Hydro
Al Leonard – Director, Strategic Partnerships, BC Hydro
Fiona Taylor – Director, SMI Utility Operations, BC Hydro
Paul Tournier, Executive Partner, Accenture