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BC HYDRO – REVENUE REQUIREMENTS
F2012-F2014 **EXHIBIT C2-10**

Our File: LF/ORG/BCUC/BCH

January 10, 2012

VIA email: commission.secretary@bcuc.com

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Box 250
Vancouver, BC V6Z 2N3

Attention: Alanna Gillis, Acting Commission Secretary

Dear Mesdames/Sirs:

Re: British Columbia Hydro and Power Authority (BC Hydro)
Project No. 3698622/Order G-40 -11
F2012 to F2014 Revenue Requirements Application

I am writing on behalf of the Canadian Office and Professional Employees' Union, Local 378, with respect to the anticipated application by BC Hydro for an Order by the Commission to approve interim rates for the 2013 fiscal year. We note that in the normal course, such applications are made in late February or early March prior to their April 1st effective-dates.

In every previous Revenue Requirements proceeding involving BC Hydro (or, frankly, any utility) in which I have been involved over the years, the real issue among the parties with respect to rates is whether the Utility will be granted the full increase for which it has applied, or if not, to what extent that increase should be pared back by the Commission. In such instances, it is a reasonably straightforward matter, logistically, to make the adjustment necessitated by any variation between interim and final/approved rates: where the Utility has over-collected, the excess can be restored to customers by being offset from future bills.

Here, uniquely, the potential problem is under-collection. The real issue is whether the final rate increase should be greater than what BC Hydro has applied for.

To recap briefly, nearly a year ago BC Hydro applied for a three-year test period with increases of 9.73 percent each year. Although this is (slightly) beneath the classically-formulated threshold for "rate shock", the government responded to the perceived "political shock" which this occasioned by appointing a Panel of Deputy Ministers (Review Panel) to review BC Hydro's operations. Following the review, BC Hydro and the Review Panel appear to have reached an "agreement" to cut the proposed increases in half, and to maintain the Deferral Account Rate Rider (DARR) at 2.5%.

The result was the November 24, 2011 Amended Application, proposing to retain the adjusted 8 percent interim rate increase for the current year, and to limit rate increases to only 3.91 percent in each of fiscal 2013 and 2014.

In the main, it seeks to substantiate the steep reduction in its revenue requirements over the test period on the basis of operational cuts and layoffs, delays to planned capital projects, and proposals to defer various costs, or extend the amortization period of existing deferrals. That is, BC Hydro has effected some immediate operating and capital cost reductions, and seeks to defer significant costs which would normally have been recovered in rates in the current period (or done so to a larger extent).

No party at the December 6, 2011 Procedural Conference suggested that the amended proposed rates were too high, though at least one customer group, AMPC, explicitly asserted that the proposed reductions should be approved.

There is no realistic prospect, we submit, that the Commission will find itself concluding that even more current cost should be deferred, or that even greater short-term cuts should be imposed on BC Hydro on a sufficient scale to permit still smaller rate increases for the next two years, especially with the F2013 and F2014 proposed rates so very far beneath the rate shock threshold, and the forward cost curve apparently rising unabated beyond the test period.

That being the case, the realistic possibilities, as we see the situation, are that either the applied-for increases will be approved on a final basis, or the Commission will reject some of BC Hydro's proposed deferrals and other devices to comply with its "agreement" with government to ask for half the increase it originally sought over the test period, and order final rate increases which are greater than those sought in the Amended Application.

In the latter scenario, we submit that there are few if any realistic options for BC Hydro to compensate for the under-collection of revenues between the start of the fiscal year and the implementation date of the final rates, unless the shareholder were to absorb the resultant loss. That is because the only other mechanism would be a surcharge on ratepayer accounts for the balance of the test period, over and above the difference between the interim rate and the final rate. That is to say, in addition to paying the "right" rates for the year, they would also have to make up for lost time in BC Hydro's collection of the revenues which the Commission has determined it requires. Failing that, the lost revenues would have to be deferred. The Commission and the Utility would be pretty much back where they started.

That "lost time" will be substantial. The hearing of the Application is scheduled to begin in the latter half of June. The proceedings will predictably be complex and contentious, all the more so because of the determination of BC Hydro's DSM Expenditure Schedule is also under consideration. It seems likely that BC Hydro will be at least half-way through its next fiscal year, F2013, before a final rate for the year is set.

That means that the increment between the interim rates and the final rates would at least need to be doubled, in order to collect the revenue determined to be required next year. Perhaps this mechanism for the recovery of under-collected revenue appears feasible, in the real world, to some: not to us. Without doubt, it would present a difficult and painful scenario for the Commission and the Utility.

Thus, in our submission, it is important that the interim rate increase set for April 1 2012 not be unrealistically low, or create a risk of substantial under-collection of revenue. Otherwise, the hands of the Commission will be largely tied, and its ability to address the thorny issues of BC Hydro's deferral accounts and DARR will be compromised.

I hope that I have sufficiently illustrated the problems built into the pending situation to make the point that setting F2013 interim rates for BC Hydro will require a substantial process, with adequate opportunity for full input from all participants. At a minimum, we submit that there needs to be adequate time for a robust written process, and that the Commission should allow time for Oral Argument, to ensure that the views of the parties are fully canvassed.

Accordingly, we are asking the Commission to determine a Regulatory Timetable to permit an adequate process to consider the interim rate increase in time for BC Hydro to implement it on its system, effective April 1, 2012. We are asking the Commission to direct BC Hydro to file its application in time to accommodate that process. Because the application will presumably be largely based on the November 24, 2011 Interim Application filing (which it seeks to implement in part), we submit that the Utility should not require a large amount of lead time in order to prepare the application for the interim rate increase. I have also provided BC Hydro with advance notice that I would be raising this issue and the reasons therefor.

We thank the Commission for your consideration of these requests.

Yours truly,



Jim Quail, Barrister & Solicitor
Legal Director, COPE 378

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cc: Parties of Record (via email)