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British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC, V6Z 2N3
Attn: Alanna Gillis, A/Commission Secretary
By Web Posting

Dear Madam:

Re: British Columbia Hydro and Power Authority
F2012-F2014 Revenue Requirements Application
Project No. 3698622/Order G-40-11
Level of interim rate increase and DARR for F2013

These are the submissions of the intervenors B.C. Sustainable Energy Association and the Sierra Club of British Columbia in response to the Commission's January 19, 2012 letter¹ inviting submissions on the level of interim rate increases and the Deferral Account Rate Rider (DARR) for F2013, along with any comments on what further process may be required, if any.

The Commission's letter is in response to a January 10, 2012 letter from the Canadian Office of Professional Employees Union Local 378 (COPE).²

By way of background, BC Hydro applied to the Commission on March 1, 2011 for approval of:

- rate increases of 9.73% in each of F2012, F2013 and F2014,
- continuation of the DARR at 2.5% during F2012,
- resetting the DARR for F2013 and F2014 in accordance with the DARR Table³ subject to average net bill increases of not more than 10 per cent each year.⁴

On March 14, 2011, the Commission approved an interim F2012 rate increase of 9.73% and continuation of the DARR at 2.5%.⁵

¹ Exhibit A-22.

² Exhibit C2-10.

³ The DARR Table is reproduced at Exhibit B-1, Table 7-3. The DARR Table, including provisions that the level of the DARR to be effective on April 1 of a given year would be based on the net balance in the Deferral Accounts as of September 30 of the previous year, and that if BC Hydro considers a deviation from the Table is warranted by special circumstances then BC Hydro should seek BCUC approval of such deviation, was approved by the Commission in its decision regarding BC Hydro's F2009/F2010 RRA. In BC Hydro's F2011 RRA, requested a reduction in the DARR for F2011 from 5% to 4% due to special circumstances, and, in the result, as part of the F11 RRA Negotiated Settlement Agreement approved by the Commission the F2011 DARR was reduced to 2.5%. See Exhibit B-1, section 7.2.2.

⁴ Exhibit B-1, March 1, 2011 cover letter, p.1.

Following input from the provincial government, BC Hydro filed an amended application in November 2011 seeking approval of:

- 8% rate increases for F2012,
- 3.91% rate increases for F2013 and 3.91% for F2014,
- continuation of the DARR at 2.5% for F2012, F2013 and F2014,⁶ and
- interim approval of a rate increase of 3.91% for F2013.⁷

COPE expressed concern in its January 10, 2012 letter that approval of an interim F2013 rate increase of (only) 3.91% and continuation of the DARR at 2.5%, as requested by BC Hydro, would lead to “under-collection” of what the Commission will later determine to be BC Hydro’s F2013 final revenue requirement.

While theoretically an under-collection in F2013 could be rectified by a surcharge in future years, COPE says this would not be feasible “in the real world.”⁸ BCSEA-SCBC agree with COPE in this regard. In BCSEA-SCBC’s view, the same ‘rate shock’ concerns that led the government to curtail BC Hydro’s original rate increase proposal for the test period would impede recovery of any under-collection of the final revenue requirement during F2013.

BCSEA-SCBC agree with COPE’s conclusion that it is important that the F2013 interim rate increase not create a risk of substantial under-collection of revenue. COPE states:

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.⁹

In BCSEA-SCBC’s view, intergenerational equity is the principle at stake here. The Commission endorsed the application of the principle of inter-generational equity to rate setting in its decision in the River District Energy CPCN and Rates Application. The Commission states:

The Panel considers inter-generational equity to be an issue which must be considered when determining appropriate escalation factors to apply to rates, both during and beyond the initial 2012-2016 period. The Panel considers that rate increases, including escalation factors, should be as smooth as possible throughout the 20-year levelization period in order to mitigate the risk of inter-generational inequity.¹⁰

⁵ Exhibit A-3, Order G-41-11.

⁶ Exhibit B-1-3, November 24, 2011 cover letter, p.1.

⁷ Exhibit A-22, citing the Amended F12-F14 Revenue Requirements Application, Exhibit B-1-3, and Amended Appendix Table X-1. It is understood that interim F2014 rate increases and DARR are not an issue, because a final decision in this F12-F14 RRA is expected before then.

⁸ Exhibit C2-10, p.2.

⁹ Exhibit C2-10, p.3.

¹⁰ BCUC Decision, December 19, 2011, River District Energy Limited Partnership, CPCN and Rates Application, p.31.

The concept of inter-generational equity was also recognized by the B.C. Auditor General in his report regarding BC Hydro's deferral accounts. He states:

While deferral accounts can be helpful in ensuring rate stability in the near term, over the long term significant costs deferred today may be unfairly passed on to future ratepayers who receive little or no benefit. This concept of a potential unequal matching of costs and benefits is known as intergenerational inequity.¹¹

The objective of inter-generational equity has also been endorsed by BC Hydro on a number of occasions.¹²

BCSEA-SCBC submit that the Commission should:

- (1) approve effective April 1, 2012 a Deferral Account Rate Rider in an amount determined according to the DARR Table, which for reference would appear to be 5% for F2013,¹³ and
- (2) approve effective April 1, 2012 an interim and refundable rate increase that is the lesser of (a) 9.73% and (b) a rate increase that when combined with the F2013 DARR yields an average net bill increase of not more than 10% in F2013.¹⁴

The effect of this proposal would be that:

- the average net bill increase for F2013 would not exceed 10%, which is the cap commonly applied, although not definitively adopted, by the Commission, and that was proposed by BC Hydro in its March 2011 application,
- the F2013 DARR would be at 5%, corresponding to the large size of the current net DA balance,
- the F2013 DARR would not be refundable, corresponding to the reality that the net DA balance will remain large even with a 5% DARR in F2013, and
- the interim F2013 rate increase would be refundable, at the Commission's discretion and subject to input from parties, in the event that the Commission approves a final F2013 revenue requirement that would yield an F2013 rate increase lower than the one approved on an interim basis.

Regarding further process, it is noted that that the Commission's January 19, 2012 letter provides an opportunity for a BC Hydro reply submission by February 1, 2012 and for oral argument "(if

¹¹ Exhibit B-1-3, New Appendix GG, Auditor General, p.13, pdf p.2518 of 2780.

¹² For example, at Exhibit B-1-3, F2012-F2014 RRA, Appendix Q, p.6 of 7.

¹³ As noted in footnote 3, the DARR Table provides that the DARR for April 1 of a given year is determined by the net DA balance as of September 30 of the preceding year. Thus, the DARR for April 1, 2012, would be determined by the net DA balance as of September 30, 2011. BCSEA-SCBC understand that the net DA balance as of September 30, 2011 was in excess of \$500-million, which corresponds to a 5% DARR at April 1, 2012.

¹⁴ It is recognized that the net bill impact of a rate increase and the DARR is not simply additive, because the amount of revenue from the DARR is affected by the size of the rate increase. Therefore, BC Hydro would have to calculate the size of the rate increase that would meet the 10% average net bill increase criterion.

necessary)” on February 13, 2012. BCSEA-SCBC respectfully submit that this interim rates and DARR issue is very important, and that an opportunity for oral argument would be appropriate.

All the above is respectfully submitted.

Yours truly,

William J. Andrews

A handwritten signature in black ink, appearing to be 'WJ Andrews', written over a horizontal line.

Barrister & Solicitor

cc. Distribution List by email