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LF: COPE/ORG/BCUC-BCH

March 6, 2012

Via Email: [commission.secretary@bcuc.com](mailto:commission.secretary@bcuc.com)

British Columbia Utilities Commission  
 Sixth Floor, 900 Howe Street,  
 Box 250 Vancouver, BC Canada 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 continue to represent COPE 378 in this proceeding. This is an Application for an Order that BC Hydro respond to an Information Request filed by the Union during the first round in this proceeding.

The originally-formulated Information Request is the following:

**62.0 Reference: BC Hydro F2011 Revenue Requirements, Commission Order G-180-10, Appendix B (Negotiated Settlement Agreement), page 8, para. 9 (xv),**

BC Hydro Commitments

"9. BC Hydro shall:

xv. engage with government regarding informing customers of future rate increases beyond those which are currently published. The 5 year rate increase forecast provided in the response to JIESC IR 3.40.3 (Exhibit B-13-1), as amended to reflect this settlement and the assumption that the DARR will be set throughout the 5-year period in accordance with the amortization proposal in item #9.i., above, and the net bill impacts are shown in the following table.

|                                       | F2011 | F2012  | F2013 | F2014 | F2015 |
|---------------------------------------|-------|--------|-------|-------|-------|
| Projected Rate Increase               | 4.67% | 17.44% | 5.42% | 9.72% | 8.37% |
| Projected Deferral Account Rate Rider | 3.53% | 2.50%  | 2.20% | 2.00% | 1.70% |
| Projected Net Bill Impact             | 7.29% | 16.27% | 5.11% | 9.51% | 8.05% |
| Projected Cumulative Net Bill Impact  | 7%    | 25%    | 31%   | 44%   | 55%   |

Note 1: For F2011 the percentages are annualized weighted averages, reflecting the impact of the changes to the DARR and the F11 RRA settlement credit, as described in items #21 and #22 of this Settlement Agreement.

Note 2: For F2012 the projected annualized rate increase (17.44 per cent) represents the combined effect of a forecast 15.85 per cent rate increase effective April 1, 2011, and the termination of the F11 RRA settlement credit (item #22) also effective April 1, 2011.

Note 3: For F2012 to F2015 the projected DARR is based on the assumptions stated above and the assumption that there are no further increases or decreases in the Deferral Account balances other than due to DARR recoveries and interest”.

**QUESTION:**

1.62.1 Please re-create this table covering fiscal years 2012 through 2017, on the basis of the best information currently available to BC Hydro, and based on the assumption that the present RRA is approved by the Commission in all respects. For the purposes of the table, assume that the DARR remains at the applied-for 2.5% throughout.

1.62.2 Please create another table covering the same period, showing BC Hydro’s best current estimate of the total balance of regulatory accounts as of the last day of each indicated fiscal year, assuming:

- water inflow and reservoir levels over the period similar to the average of the past five years;
- no relevant policy or legislative changes; and
- no extraordinary unforeseen circumstances, which would materially change the outcome.

Please also provide a commentary explaining the results.

1.62.3 Please create a third table covering the same period, showing BC Hydro’s best current estimate of the total balance of regulatory accounts as of the last day of each indicated fiscal year, assuming water inflow and reservoir levels equivalent to those experienced by BC Hydro in F2007 and F2008.

BC Hydro provided the following response to 1.16.1, in Exhibit B-16:

**RESPONSE:**

**The best information currently available for F2012 to F2014 is included in the Amended Application. Please also refer to the response to BCUC IR 1.409.1.**

The response to BCUC IR 1.409.1 is hardly enlightening:

**BC Hydro has not completed its revised five-year plan, ten-year capital plan, and long-term rate increase forecast.**

Hydro provided partial responses to COPE 378 IRs 1.62.2 and 1.62.3, but those responses also declined to provide any projections beyond the test period.

In discussions with the utility, COPE 378 proposed a modified version of the Information Request. BC Hydro continued to decline to provide the information sought – specifically, any projections beyond the term of the Amended Revenue Requirements Application.

COPE 378 now seeks an Order that BC Hydro respond to the modified version. It retains the original preamble but poses the following questions:

**REVISED QUESTION:**

1.62.1A Please re-create this table covering fiscal years 2012 through 2017, on the basis of the best information currently available to BC Hydro, and based on the assumption that the present RRA is approved by the Commission in all respects other than the DARR. For the purposes of the table, please make the following assumptions:

- water levels are average throughout the period beyond the test period
- trade income is constant throughout the period beyond the test period at the projected F2014 level
- the proposed LNG facilities in the Kitimat region have no impact
- load growth continues throughout the period beyond the test period at the average rate which the Amended Application projects for the test period
- the DARR remains at the F13 interim level of 5% from F13 through F17.
- amortizations of other regulatory accounts (such as SMI) proceed as proposed in the Amended Application
- plus any additional conservative assumptions (which should be identified in the response) which facilitate providing a baseline response

**Please respond to COPE 378 1.62.2 and 1.62.3 on the basis of assumptions consistent with those applied to the response to 1.62.1A together with such other explicit conservative assumptions as you consider will facilitate providing responses.**

## Necessity for the Responses

The point of this Information Request is to provide the foundation for a “base case” of estimated rates in the period following the test period. It is intended to minimize the range of variables and unknowns by means of conservative estimates. We believe that this is a critically important piece of the puzzle.

One of the most significant differences between the original Revenue Requirements Application filed nearly a year ago and the Amended Application filed on November 24, 2011 is the proposal for huge increases in deferrals, from the test period into the (for the most part) undefined future. We addressed this general scenario and its potential consequences in Exhibits C2-10 and C2-11, concerning Interim Rates, and will not repeat ourselves here.

Perhaps the most important evaluation which the Commission will need to make in this proceeding is whether or not to permit the scale of deferrals proposed by the utility as a device to reduce test period rate increases by half. We submit that it is simply not possible for the Commission to determine whether or not, in its best judgment, the proposed deferrals are in the public interest unless it first has some sense of the default rate scenario which will be present during the time-frame when the deferred costs would come home to roost, so to speak.

Unless the Commission has a general sense of rate pressures and prospects in the years immediately following the test period, it has no basis to evaluate the impact of layering costs deferred from the test period on top.

For example, if the purported justification for the deferrals is to smooth rates and minimize rate shock (which appears to be the case), there is no way to evaluate the validity of that strategy absent a projection of the “base case” for rates going forward. If rate pressures are naturally subsiding and projected rate increases are moderating, then it may make good sense to redistribute some current costs forward onto that base scenario to flatten the forward curve. If, on the other hand, the trajectory going forward is for continued or even escalating rate pressures, the proposed new deferrals would exacerbate the shock awaiting ratepayers beyond Fiscal 2014.

We have reason to expect that rate pressures are not about to subside, though in the absence of an analysis of that question neither we nor the Commission nor any other participant in this process can do much more than speculate.

As the chart reproduced above in the IR preamble shows, in 2010 BC Hydro projected an 8.37% general rate increase for Fiscal 2015, with a DARR of only 1.70%.

On top of that we have the relentlessly- escalating cost of energy as additional Energy Purchase Agreements with IPPs become operational: as each cycle harvests the lowest-hanging fruit, the price attached to these contracts can only rise. We can expect to feel the impact of huge new industrial loads, including the planned Kitimat-area Liquefied Natural Gas export facilities, the first of which is projected to become operational around Fiscal 2016. The task of maintaining and renewing Hydro’s aging infrastructure will continue as a huge piece of unfinished business, and will continue to drive rates up just as it has done for the current period. The Commission has adjusted the DARR on interim rates to 5%, but that number is only the “correct” one because the deferral accounts have surpassed the top of the scale on the chart containing the DARR formula.

And so forth.

The Commission will need to consider the impact of pancaking three categories of deferred costs from the current test period on top of that base scenario for the following years. First, we have explicit deferrals through regulatory accounts, and the postponed amortization of such accounts as SMI. Second, we have the capital projects which are postponed in the Amended Revenue Requirement Application. Third, we have the eventual consequences of such expedients as projecting high Trade Income during the test period, to furnish numbers which add up to the pledge to seek 3.91% increases, extracted by government.

We submit that there are no visible factors at work to materially moderate pressure on rates. And Hydro has run out of short-term fixes: it can't lay off the same hundreds of employees a second time, and it has to leave someone on staff to keep the lights working.

Other parties may not agree with all of our characterizations; however, it cannot be said that the picture we are drawing is incorrect in the absence of some sort of "base case" rate projection beyond the test period.

We realize that the projections we are asking for are replete with uncertainties. What we are seeking is BC Hydro's current best estimates based on the information available. And our Information Request invites them to incorporate any other explicit assumptions which facilitate the task.

Accordingly, we ask the Commission to order BC Hydro to respond to our revised Information Request.

All of which is respectfully submitted.

Yours truly,

A handwritten signature in black ink, appearing to read "Jim Quail". The signature is stylized and cursive, with a large initial "J" and "Q".

Jim Quail, Barrister & Solicitor  
Legal Director

JQ:sl-usw2009

cc: parties of record (via email)