

REQUESTOR NAME: **BC Sustainable Energy Association and Sierra Club of British Columbia**

INFORMATION REQUEST ROUND NO: 1

TO: **Association of Major Power Customers of BC (AMPC)**

DATE: **May 1, 2012**

PROJECT NO: **3698622**

APPLICATION NAME: **F2012-2014 Revenue Requirements Application**

1.0 Topic: AMPC
Reference: Exhibit C18-9, AMPC Evidence, “AMPC Explained,” p.1

“AMPC’s membership includes the forestry, pulp and paper, electro-chemicals and coal and metal mining sectors.”

The following requests do not seek confidential information.

- 1.1 Please provide a list of AMPC members.
- 1.2 Please provide a table showing the number of AMPC members in each sector.
- 1.3 Please provide a table showing the number of AMPC members in each customer class (i.e., transmission, large commercial, etc.)

2.0 Topic: AMPC Evidence
Reference: Exhibit C18-9, AMPC Evidence

- 2.1 Who is (are) the author(s) of the AMPC evidence?
- 2.2 Will the author(s) of the AMPC evidence be made available for cross-examination during the oral hearing scheduled in this proceeding?
- 2.3 Does AMPC intend to call the members of the Government Review Panel as witnesses in the upcoming oral hearing in this proceeding?

3.0 Topic: Rates and competitiveness
Reference: Exhibit C18-9, AMPC Evidence, p.1

“AMPC believes that continued [BC Hydro revenue requirement] increases will seriously detract from the competitiveness of existing industries in British Columbia and render British Columbia a less attractive location for business expansion, new business and associated investment.”

- 3.1 In AMPC’s view, is the impact of BC Hydro rate increases on the competitiveness of B.C. businesses due mainly to increased rates in absolute terms or to an increase in BC Hydro rates relative to electricity rates in other jurisdictions?
- 3.2 What other jurisdictions does AMPC look to as comparators with BC Hydro in terms of electric rates and rate increases?
- 3.3 How do BC Hydro’s rates and forecast rate increases compare with the electricity rates and forecast rate increases in the comparator jurisdictions?

4.0 Topic: Government Review Report
Reference: Exhibit C18-9, AMPC Evidence, p.3

“The Review Panel Report is truly special. It cannot credibly be attacked or discredited as being ill informed, representing a limited perspective or lacking objectivity.”

- 4.1 Please comment on the suggestion that the Review Panel’s final conclusions merely echo the government’s statement upon initiation of the review that BC Hydro’s proposed F2012-F2014 revenue requirements and rate increases were unreasonably large.

5.0 Topic: Approach to rate determination
Reference: Exhibit C18-9, AMPC Evidence, p.1

“In this evidence AMPC does not propose how this goal of 8.0%, 3.9% and 3.9% rate increases should be achieved, but rather points out many of the opportunities for savings that do exist, including some of those exposed by the Review Panel (these amounts should be inclusive of any changes to the Deferral Account Rate Rider, absent which further reductions should be sought). In the end AMPC believes it is for the Commission to set the goal and any restrictions on how it may be achieved, and then leave it to BC Hydro to get there.” [underline added]

- 5.1 Is the underlined statement intended to be a legal proposition? In AMPC’s view, does the Commission have jurisdiction to set maximum permissible rate increases, leaving it to BC Hydro how to get there?

6.0 Topic: Intergenerational equity
Reference: Exhibit C18-9, AMPC Evidence, p.4

“AMPC does not support BC Hydro's Updated Application as a methodology that is sufficient or appropriate for achieving the targeted rate levels because it relies in part upon the deferring of current period costs and credits to revenue requirements. In other words, some costs will be paid later, while some credits are taken advantage of early, reflecting the application of inconsistent principles to benefit current ratepayers at the expense of future ratepayers. AMPC rejects deferrals of current period costs and takes the position that the targeted reductions in rate increases must come from legitimate cost reductions and savings – not putting off today's costs for tomorrow's customers to pay.”

- 6.1 Is AMPC’s opposition to “putting off today's costs for tomorrow's customers to pay” conditional on achieving BC Hydro’s proposed test period rate increases? In other words, does AMPC oppose deferral of current period costs even if means rate increases higher than the targets (8.0%, 3.9% and 3.9%)?

7.0 Topic: Regulatory Deferral Accounts
Reference: Exhibit C18-9, AMPC Evidence, p.19

“AMPC believes there are simply too many Regulatory Accounts, transferring too much risk from the shareholder to the ratepayer.”

- 7.1 Is the emphasis of AMPC’s concern on the number of Regulatory Accounts, the number of circumstances eligible for Regulatory Account treatment, or the size of the balances in the Regulatory Accounts?

- 7.2 Please discuss whether AMPC considers that regulatory accounts also shield the ratepayer from paying for estimated expenses that do not materialize.

8.0 Topic: Review of Regulatory Deferral Accounts
Reference: Exhibit C18-9, AMPC Evidence, p.20

“The time has come for a major review of each of BC Hydro’s regulatory accounts: why each exists, what is included, how they are amortized, how they are reduced, and how they are written off.” ... “In AMPC’s submission the Commission is the right body to do such a review.”

- 8.1 Is AMPC proposing that the Commission review BC Hydro’s regulatory deferral accounts within this revenue requirement proceeding, or in a separate proceeding? In either case, please elaborate on the proposal.

9.0 Topic: Deferral Accounts
Reference: Exhibit C18-9, AMPC Evidence, p.22

“Each of these three accounts [HDA, NHDA and TIDA] need to be analyzed and cleaned out of all items such as Storm Restoration costs, BCTC costs and GMS 3 failure costs that are not truly cost of energy related costs relating to the intended purpose of the accounts. These costs can then be expensed (if they are found to be real current period costs) or transferred to another Regulatory Account where they can be appropriately amortized or recovered in a separate rate rider in accordance with their own nature.”

- 9.1 Is AMPC proposing consideration of an *additional* rate rider?
 9.2 What are AMPC’s views on the merits of doing away with the existing rate rider and recovering the same amounts through rates?

10.0 Topic: Cost of Energy deferral accounts
Reference: Exhibit C18-9, AMPC Evidence, p.21

“[HDA, NHDA and TIDA] are accounts that can be expected to increase when water levels are low, and increased purchases are necessary and decrease when water levels are high, less purchases are necessary and there may be some surplus for sale. AMPC recognizes that these swings have been substantial in the past.” ... “Rate volatility due to weather is not something that should affect customers from year to year and rates going up and down for this reason is not appropriate and does not send a necessary or useful price signal.”

- 10.1 Does AMPC agree that the fluctuations in the net balance of the HDA, NHDA and TIDA due to weather from year to year are not symmetrical? For example, that the size of the negative financial impact of *low* water in one year is not necessarily the same as the size of the positive impact of *high* water in another year?

11.0 Topic: Cost of Energy deferral account recovery
Reference: Exhibit C18-9, AMPC Evidence, p.22

“AMPC expects that appropriate treatment of these CoE accounts would lead to re-establishing the DARR at 2.5% or lower.”

- 11.1 Please explain the basis for this statement.

11.1.1 To what extent does it assume that deferred revenue otherwise recovered through the existing DARR is recovered directly through rates?

11.1.2 Does this statement apply only after full recovery of the existing (large) net balance of the deferral accounts?

12.0 Topic: DSM
Reference: Exhibit C18-9, AMPC Evidence, p.23

“We want to be clear that AMPC supports cost-effective DSM, but that does not mean these expenditures can escape a thorough review of their cost effectiveness.”

12.1 Does AMPC support BC Hydro pursuing all cost-effective conservation and efficiency savings, where cost-effectiveness is confirmed?

12.2 Please clarify which portions of AMPC’s evidence, if any, relate specifically to BC Hydro’s F2012-F2013 DSM Expenditure Schedule.

13.0 Topic: DSM
Reference: Exhibit C18-9, AMPC Evidence, p.23

“DSM program and related administration costs generally place upward pressure on rate levels.”

13.1 Please confirm that DSM program and related administration costs generally place downward pressure on bill levels, and that by postponing the need to acquire costly new generation resources DSM can postpone upward pressure on rate levels.

14.0 Topic: DSM
Reference: Exhibit C18-9, AMPC Evidence, p.23

“Consumption data for the last 10 years shows little or no decline in per capita electricity use, despite large and growing costs of BC Hydro’s DSM programs.”

14.1 Does AMPC agree that the impact of DSM spending is not measured by changes in per capita electricity use but by the difference between actual consumption with DSM and forecast consumption without DSM.

15.0 Topic: DSM
Reference: Exhibit C18-9, AMPC Evidence, p.23; Review Panel Report, Exhibit B-1-3, Appendix BB, pp.163-164

“...AMPC is concerned that the legislated objective to meet 66% of new growth by DSM is at odds with the objective of reducing the size of rate increases.

This was recognized by the Review Panel in the following recommendation:

(54) Re-evaluate its various energy conservation programs to reduce the overall costs to ratepayers while still achieving value for money.” [AMPC Evidence, p.23]

“The measurement of benefits and costs of DSM is subject to considerable verification and scrutiny.

BC Hydro’s DSM evaluation resources include recognized experts in the field. Evaluation reports are reviewed by independent, third party experts and then further reviewed and approved by a cross-BC Hydro committee. Also, BC Hydro files milestone evaluation reports with the BCUC separate from the Revenue

Requirements Application process. The evaluation activities are guided by the California Evaluation Framework, which is generally regarded as the leading protocol in North America for DSM evaluation.” [Review Panel Report, p.125 of 133]

Review Panel Report:

Figure 3.6.2 details our calculation of the estimated benefits and costs of DSM.

Estimated Costs and Benefits of DSM	Measure	Notes
Costs by 2028 (A)	\$3,174M	
Long-term energy savings benefit by 2028 (B)	77,781 GWh	
Unit cost of energy savings benefit (C)	\$41 MWh	(A/B x 1000)
Value of energy savings benefit (D)	\$120/MWh	Estimated in 2008 LTAP
Net benefit or savings from DSM by 2028	\$6,160M	(B x 1000) x (D-C)

Figure 3.6.2

- 15.1 Please confirm that the Review Panel’s recommendation 54 does not address the legislated objective to achieve 66% of load growth by DSM.
- 15.2 Please confirm that the Review Panel’s report observes that the measurement of benefits and costs of BC Hydro’s DSM is subject to considerable verification and scrutiny and expresses no concerns in this regard.
- 15.3 Please confirm that the Review Panel estimated the net benefits of BC Hydro’s DSM programs to 2028 at some \$6-billion.

16.0 Topic: Amortization of DSM spending
Reference: Exhibit C18-9, AMPC Evidence, pp.23-24

“If BC Hydro’s proposed increase in the amortization period from 10 to 15 years is permitted, the associated Regulatory Account balances are projected to increase from \$0.3 billion in F2007 and \$0.5 billion in F2012 to \$1.9 billion in 2032 before declining.

“If one is going to spread the costs of DSM over 15 years one must be certain the benefits will last for 15 years and are attributable to the programs. AMPC does not feel there has been a sufficient review of the current DSM expenditures to support such a finding.” [p.24]

- 16.1 Does AMPC agree that if the evidence supports a conclusion that the weighted average persistence of the benefits of DSM spending is approximately 15 years then 15 years would be an appropriate amortization period?
- 16.2 Is AMPC willing to accept the consequences for the F2013-F2014 revenue requirements of retaining the DSM amortization period at 10 years?

17.0 Topic: Amortization of DSM spending
Reference: Exhibit C18-9, AMPC Evidence, p.24

In the table titled "Accounting treatment of DSM Expenditures" on p.24 of its evidence, AMPC distinguishes between the accounting treatment of DSM administration costs and other DSM costs.

- 17.1 Does AMPC acknowledge that 'expensing' DSM administration costs, rather than amortizing them, would increase BC Hydro's revenue requirement in the test period? Is AMPC willing to accept the rates consequences of that accounting treatment?

18.0 Topic: DSM spending review
Reference: Exhibit C18-9, AMPC Evidence, p.24

"AMPC also disagrees with including elements that are not within the control of BC Hydro or a direct result of BC Hydro DSM program expenditures in the average persistence and amortization period, e.g., legislation and rate design."

- 18.1 Is AMPC saying that BC Hydro's evidence on DSM measure persistence does attribute to its DSM spending savings that are *not* the result of such spending? If so, please provide specifics.

19.0 Topic: DSM spending review
Reference: Exhibit C18-9, AMPC Evidence, p.24

"BC Hydro's DSM expenditures, their justification and appropriate amortization should be subjected to a critical review before more money is committed and before the amortization period is extended. The Commission should not leave such a review to BC Hydro. The Commission should retain, or pay for, independent experts to review these matters. The expenditures and issues are too important and complex and the knowledge base too small to leave to Interveners or Commission Staff to come up with the solutions alone." ...

"In summary, AMPC recommends retaining the amortization at 10 years, and ordering a review of the effectiveness of DSM programs and the appropriate amortization term by an independent third party."

"We recommend that BC Hydro:

(54) Re-evaluate its various energy conservation programs to reduce the overall costs to ratepayers while still achieving value for money."

[p.125 of 133, bold in the original]

- 19.1 The Review Panel's recommendation 54 was that *BC Hydro* conduct the proposed re-evaluation of its DSM spending. Please confirm that AMPC differs in proposing a review by an independent third party and explain the reason for the difference.
- 19.2 Is the Commission the independent third party that AMPC says review BC Hydro's DSM programs and amortization? If not, please explain.
- 19.3 Please confirm that AMPC is not suggesting its proposed review of BC Hydro's DSM spending be conducted within the current RRA/DSM Expenditure Schedule proceeding.
- 19.4 What does AMPC mean when it says the review of BC Hydro's DSM should be "before more money is committed"?

20.0 Topic: Other Regulatory Accounts, Site C
Reference: Exhibit C18-9, AMPC Evidence, p.25

With reference to Site C, AMPC states, “AMPC would like to see all investigation costs expensed when and as occurred. Cost control should be maintained over bona fide design costs given the current scale of the deferral account.”

- 20.1 Does AMPC agree that expensing Site C and other investigation costs “when and as incurred” would increase the revenue requirement in the short term? Does AMPC accept the F2013-F2014 revenue requirement consequences of the Commission adopting this accounting approach?

21.0 Topic: Other Regulatory Accounts, Smart Metering and Infrastructure

Reference: Exhibit C18-9, AMPC Evidence, pp.25-26

- 21.1 Does AMPC oppose BC Hydro’s proposal to postpone recovery of SMI capital expenditures beyond the in service date?

22.0 Topic: Regulatory Accounts

Reference: Exhibit C18-9, AMPC Evidence, p.27

AMPC recommends: “1. The CoE (HDA, NHDA and TIDA) deferral accounts be recovered through the DARR in accordance with the F2011 NSA which in the absence of unusual deferrals will result in recovery over a 9-10 year period.”

- 22.1 Please clarify this recommendation.

22.1.1 Does the recommendation apply to F2013 and F2014? What about subsequent periods?

22.1.2 What is it about the F2011 NSA DARR provision that is referred to: the percentage size of the DARR, or the mechanism for determining the size of the DARR?

- 22.2 Is the assertion that the F2011 NSA DARR would will result in full recovery of the net balance in the cost of energy deferral accounts in 9-10 years? Please clarify the assertion. Please provide the analysis and calculations that support the assertion.

- 22.3 Please reconcile this assertion with BC Hydro’s Appendix H, “Deferral Account Rate Rider Analysis (Response to Provision 9(i) of F11 RRA NSA),” Exhibit B-1-3.

23.0 Topic: Conclusion

Reference: Exhibit C18-9, AMPC Evidence, p.31

“In conclusion, AMPC,

- Agrees with BC Hydro’s proposed rate increases, provided they are inclusive of the DARR, and provided they are not achieved by adjusting the DSM amortization period or deferring current period costs;”

- 23.1 Please explain what AMPC means by “proposed rate increases, provided they are inclusive of the DARR.”

- 23.2 Please confirm that BC Hydro’s proposed F2012-F2014 rate increases (of 3.9% and 3.9%) are achieved by both adjusting the DSM amortization period and deferring current period costs. If not, please explain and reconcile with AMPC’s evidence.

23.3 If AMPC agrees that BC Hydro's proposed rate increases are achieved by adjusting the DSM amortization period and deferring current period costs, is AMPC's position that the Commission should disallow adjustment of the DSM amortization period and deferral of current period costs, *plus* require BC Hydro to reduce the revenue requirement so as to achieve F2012-F2014 rate increases of 8.0%, 3.9% and 3.9%, in which case AMPC would support BC Hydro's proposed rate increases?

24.0 Topic: Conclusion
Reference: Exhibit C18-9, AMPC Evidence, p.31

"In conclusion, AMPC, ...

- Suggests the BCUC set BC Hydro's Revenue Requirement at the above amount as an incentive for BC Hydro to achieve appropriate cost reductions, to be identified by BC Hydro;"

24.1 Is AMPC suggesting that the Commission both disallow lengthening of the DSM amortization period and deferring current period costs and require BC Hydro to reduce its F2013-F2014 revenue requirements so as to achieve rate increases of 3.9% and 3.9%?

25.0 Topic: Conclusion
Reference: Exhibit C18-9, AMPC Evidence, p.31

"In conclusion, AMPC, ...

- Suggests cost reductions by steps such as reducing the number of employees, exploring restructuring and outsourcing options and the appropriate use of consultants to reduce duplication, denying PEI and salary bonus costs, and reducing DSM expenditures;" [underline added]

25.1 Does this reference to reducing DSM expenditures relate to post-test period decision? If it relates to the F2012-F2013 DSM Expenditure Schedule, please explain.

26.0 Topic: Conclusion
Reference: Exhibit C18-9, AMPC Evidence, p.31

"In conclusion, AMPC, ...

- Suggests the BCUC direct BC Hydro to:
 - Amortize CoE and DSM deferral accounts over an appropriate (10 year) period; and

26.1 Is it AMPC's view that the cost of energy deferral accounts should be amortized on a straight line basis? Is the suggestion that this would apply to the current net balance?

26.2 Please explain why the same amortization period should apply to both the cost of energy deferral accounts and the DSM deferral accounts?