

Association of Major Power Customers of BC (AMPC)**Response to Information Request No.1 of BC Sustainable Energy
Association and Sierra Club of British Columbia (BCSEA)****May 15, 2012**

- 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.

Response:

AMPC members include major transmission level customers of BC Hydro in the Pulp and Paper, Forestry, Mining, Electrochemical and Petrochemical sectors. This includes major BC corporations, some struggling to stay in business and some with major growth and expansion plans.

All AMPC members have at least one facility served at transmission voltage level on BC Hydro’s TSR. Several AMPC members have multiple services some of which would be considered large commercial or small industrial. Some AMPC members have significant cogeneration and renewable generation facilities. All AMPC member representatives also personally have residential services.

AMPC typically does not make its membership list public. To be helpful, however, AMPC advises that its membership collectively purchased 10,642 GWh from BC Hydro in 2011. This represents approximately 21% of B.C.’s total load and 81% of large industrial load.¹ Approximately 60% of this consumption was from forestry-related industries, 26% from mining, and 14% from electrochemical and petrochemical operations.

AMPC’s predecessor was the Joint Industry Electricity Steering Committee (“JIESC”) and before that the Council of Forest Industries and the Mining Association of B.C. AMPC and these predecessors have been active participants in Commission proceedings since BC Hydro became rate-regulated nearly four decades ago.

¹ Calculated based on Exhibit B-1-3, New Table 3-A.

- 1.2 Please provide a table showing the number of AMPC members in each sector.

Response:

Please refer to AMPC's response to BCSEA IR No. 1. 1.1.

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

Response:

Please refer to AMPC's response to BCSEA IR No. 1. 1.1.

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

- 2.1 Who is (are) the author(s) of the AMPC evidence?

Response:

Richard Stout and Lloyd Guenther were responsible for the content and will answer questions thereon. The evidence was circulated and accepted by the AMPC executive. Please see AMPC's response to BC Hydro IR No. 1.1.

- 2.2 Will the author(s) of the AMPC evidence be made available for cross-examination during the oral hearing scheduled in this proceeding?

Yes. Please see AMPC's response to BC Hydro IR No. 2.1.

- 2.3 Does AMPC intend to call the members of the Government Review Panel as witnesses in the upcoming oral hearing in this proceeding?

No.

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?

Response:

The viability of BC resource businesses is affected by the total costs of all inputs compared to the costs of competitors worldwide. Electricity costs are a significant portion of operating costs for AMPC members and cumulative rate increases may be large enough to render some B.C. businesses uncompetitive with businesses producing similar products in other parts of the world.

Historically, low electricity costs have been a significant factor in establishing and retaining B.C. businesses whose competitors elsewhere have lower input costs, including lower labor costs, lower energy costs, lower royalties and fees, more concentrated ore bodies, lower transportation costs, lower environmental protection costs and lower taxes. Recent rate increases of BC Hydro have already eroded this former advantage.

- 3.2 What other jurisdictions does AMPC look to as comparators with BC Hydro in terms of electric rates and rate increases?

Response:

Business competes worldwide and it is the total cost of business, including transportation to market, that matters. With electricity costs at 20% or more of operating costs and as high as 50% for some, it remains a significant factor. Traditionally BC Hydro has compared its rates to those in Quebec, which has a similar heritage of hydraulic resources and comparable resource industries, and to Manitoba. Many competitors to B.C. companies may be located close by, e.g. in Alberta and Washington, or as far away as Australia, Brazil, or Chile.

- 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?

Response:

Please refer to the chart below prepared by Manitoba Hydro,² which shows BC Hydro's eroding competitiveness with comparable jurisdictions in Canada:

General Service (Large Industrial Loads)
One Month Bill For:
Customer-Owned Transformation Service at Transmission Voltage Exceeding
100 kV
100% Power Factor

	20,000 kW / kVA 12,000,000 kWh	¢/kWh
1) Toronto Hydro-Electric System Ltd.	\$1,150,854	9.590
2) Hydro One Networks Inc.	\$1,043,012	8.692
Maritime Electric	\$1,008,800	8.407
3) Nova Scotia Power	\$894,000	7.450
4) Newfoundland Power	\$865,562	7.213
NB Power	\$828,400	6.903
SaskPower	\$680,961	5.675
BC Hydro	\$558,113	4.651
Hydro Quebec	\$546,786	4.557
Newfoundland & Labrador Hydro	\$480,520	4.004
Manitoba Hydro	\$430,800	3.590

Note:

1. Based on an average energy price of 6.87 ¢/kWh.
2. Based on an average energy price of 6.67 ¢/kWh. Transmission customers billed by the IESO.
3. Assumes load is interruptible.
4. Summer/Winter average bill.

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."

² Sourced from

http://www.hydro.mb.ca/regulatory_affairs/energy_rates/electricity/utility_rate_comp.shtml
on May 15, 2012, and current as of May 1, 2011.

- 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.

Response:

- 4.2 The "suggestion" is unsupported, unfair and inappropriately questions the deputy ministers' expertise and integrity. After the most comprehensive investigation of BC Hydro's cost drivers that has ever been undertaken, the panel came to the same conclusion as the government and every customer group. The panel provided detailed reasons supporting its conclusions.

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?

Response:

The underlined statement should be read within the context of the preceding sentence, including "[AMPC] points out many of the opportunities for savings." In AMPC's view the Commission has jurisdiction to take the steps AMPC recommends.

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%)?

Response:

Customers have already been subject to increases well above the rate of inflation and cannot sustain increases higher than the limits recently established by the government in response to the escalating costs of BC Hydro.

Industrial customers will also face an additional increase of 7% following the removal of the HST if the current HST exemptions are not maintained in the PST. The increase that industrial customers will see as a result of the government’s decisions is therefore 8.0%, 3.9% and 11.2%. Any changes to more appropriately recover costs in the current period must be made under this threshold.

- 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?

Response:

AMPC considers the number of regulatory accounts and the number of circumstances to be similar issues. The concern for AMPC is that BC Hydro is shielded from forecasting risk and unanticipated costs despite an equity risk premium with deemed income taxes, deemed equity of 30% and a 100% recovery of financing costs for a capital structure of 110%. BC Hydro should be able to manage its total costs and make trade-offs as necessary. BC Hydro has a very low threshold for defining material costs for deferral accounts relative to the total revenue requirements and return on equity (\$2M).

Examples of cost deferrals that have a low materiality threshold are storm restoration costs and the Seven Mile generator repair. The material or

significant costs threshold for seeking deferral and later cost recovery treatment appears to be \$1-2 million.

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

Response:

There is a risk that any utility will cushion its budgets when there is a risk to the shareholder. The regulatory process should be able to deal with that. Both the utility shareholder and customers could be protected from material changes through early disclosure and a limit on the risk that either party should be exposed to.

- 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.

Response:

The Commission must review BC Hydro’s regulatory deferral accounts within this revenue proceeding. This is the period for which BC Hydro is proposing a specific disposition of both current and future recovery of current expenditures. There is no other way to determine if the revenue requirement requested by BC Hydro is prudent.

The Commission’s responsibility to consider rate impacts on customers extends beyond the current test period. The B.C. Energy Objectives under the *Clean Energy Act* require BC Hydro’s rates to “remain among the most competitive of rates charged by public utilities in North America.” At the current rate of growth in deferred costs it is clear that this requirement will not be satisfied.

- 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?

Response:

AMPC is proposing a principled approach to the treatment of regulatory accounts, including addressing the DARR functions. In this case, AMPC is proposing consideration of a separate rider for one-time limited amortization term deferred costs that are not appropriately in the HDA, NHDA or TIDA accounts, so that base rates are not distorted and deferral accounts related to the DARR are not distorted. Please also see AMPC's response to BCSEA IR No. 1.9.2.

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?

Response:

As long as the deferred costs reflect volatile, cyclical or non-recurring ("one-off") energy costs there is merit in recovering them through a rider that can be adjusted independently of the base rates. Other costs are better recovered through base rates that, if adjusted less frequently, provide an incentive to the shareholder to control costs.

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?

Response:

The changes from year to year may or may not be symmetrical over 9 to 10 years. The DARR balances out any asymmetry.

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?

Response:

The basis for the AMPC statement is that costs that are not related to Cost of Energy due to water inflows, such as deferral of sales variances and deferral of known current period cost of energy increases in order to manage rate increases, are removed from DARR.

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

Response:

Other deferrals would be recovered through another mechanism. The concern with inclusion in base rates is that the costs may continue to be included in rates after the costs have been fully recovered and that the rates are not reflective of true base costs.

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?

Response:

AMPC supports DSM. Our differences lie in what constitutes cost-effectiveness. Expenditures on DSM programs should be determined following the application of several economic tests that provide multiple perspectives, including the perspective of the ratepayer. Energy savings projections cannot be conclusively verified when customer choices, absent DSM program expenditures, are not known and available.

Given that ratepayers and the shareholder expressed a sufficient level of concern about BC Hydro's current and future rate increases to trigger the Government Panel review, only DSM programs that have a high probability of reducing rate levels should be funded through rates. It is difficult to see how the competitive rate objectives of the *Clean Energy Act* can otherwise be met.

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

Response:

Page 23 (a) DSM and Page 24, lines 9-14 of the AMPC evidence express concerns about the nature and level of DSM expenditures. AMPC understands that DSM expenditures are to be reviewed in the IRP and until that occurs would expect DSM expenditure increases to be reduced or eliminated.

- 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.

Response:

If the assumptions employed are correct, DSM program and related administration costs may place downward pressure on rates if they also satisfy the rate impact measure (RIM) test.

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.

Response:

It is not that simple. Please see AMPC’s response to BC Hydro IR No. 1.6.1.

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.

Response:

Recommendation 54 does not refer to the 66% objective specifically. It does suggest, however, that BC Hydro's proposed energy conservation (DSM) programs may be too expensive in the light of forecast costs and rate impacts. The report was written by a panel of Deputy Ministers who, in AMPC's opinion, must have been well aware of the 66% target contained in the legislation.

- 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.

Response:

The Review Panel observed that costs and forecasts of DSM benefits were conducted by consultants and internal committees subject to the protocols of the California Evaluation Framework. However, the Review Panel is clearly concerned about the cost and rate effects of energy conservation (DSM) programs funded by the ratepayer and the amount finding its way into deferral accounts, or it would not have made recommendation 54.

- 15.3 Please confirm that the Review Panel estimated the net benefits of BC Hydro's DSM programs to 2028 at some \$6 billion.

Response:

The Review Panel recorded BC Hydro's net benefit estimates based on California protocols and would not have the time or resources required to

evaluate the underlying assumptions involved or make independent estimates of customer behaviour absent the DSM expenditures.

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?

Response:

The amortization should correspond to the persistence period that can be confidently established in light of all the market, regulatory, societal and behavioral changes that can take place in that extended timeframe.

16.2 Is AMPC willing to accept the consequences for the F2013-F2014 revenue requirements of retaining the DSM amortization period at 10 years?

Response:

The Commission should establish a revenue requirement that will produce rate increases of 8%, 3.9% and 3.9% in each of the three test years. The consequence of a shortened DSM amortization period should be offset by cost reductions in DSM or other areas. In AMPC’s view BC Hydro should be able to identify such cost-saving opportunities. Extending the DSM amortization period in order to temporarily lower rate increases should not be a consideration.

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?

Response:

No. Please refer to AMPC’s response to BCSEA IR No. 1.16.2. Expensing DSM expenditures under a revenue cap provides an incentive for BC Hydro to better control its expenditures in general. This is how regulation of monopoly utilities is expected to simulate a competitive market for electricity, and to achieve the results suggested by the Review Panel.

- 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.

Response:

It is not clear to AMPC how BC Hydro has separated the conservatory effects of possible legislation or rate increases and rate structures (specifically new inclined block rate design) from the conservatory effects of DSM programs or has given these factors sufficient weighting and time to take effect in its evaluation of DSM benefits.

BC Hydro has not included Codes & Standards or Rate Design:

“This programs-only approach to persistence is consistent with BC Hydro’s approach in previous regulatory proceedings. However, substantial DSM savings are also now provided by the other two DSM tools: conservation rate structures and codes and standards. These DSM tools provide savings with persistence up to 30 years. Inclusion of these savings into the calculation would result in a considerably longer average persistence for the overall DSM savings portfolio, well in excess of 14 15 years.³”

³ Ex B-1-3, Appendix II, Attachment 6, p. 3.

However, BC Hydro does include behavior /sustainable community/ lead by example (30, 14 yrs), lighting (14 yrs), and new construction (C&S) (18, 20, 30 yrs).

- 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.

Response:

Confirmed. The Review Panel made many comments about BC Hydro’s culture of “gold standard” and lack of focus on cost control. Evaluation of DSM is as affected by this bias as other expenditures and is particularly dependent upon assumptions concerning customer behaviour absent DSM programs. For these reasons AMPC believes that any worthwhile review of DSM must be independent of BC Hydro and the shareholder.

- 19.2 Is the Commission the independent third party that AMPC says review BC Hydro’s DSM programs and amortization? If not, please explain.

Response:

The Commission is independent and may retain extra resources as necessary to conduct a review.

- 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.

Response:

AMPC is suggesting that DSM expenditures that cannot be demonstrated to reduce rates in the short term be suspended until a review can be conducted.

- 19.4 What does AMPC mean when it says the review of BC Hydro's DSM should be "before more money is committed"?

Response:

AMPC means that customers' concerns about rate increases should be respected. Please refer to AMPC's response to BCSEA IR No. 1.19.3 above.

- 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?

Response:

Yes, although AMPC expects BC Hydro to be required to identify further off-setting cost-saving opportunities to ensure that the recommended 8%, 3.9% and 3.9% increases are not exceeded. Expensing Site C investigation costs will promote a focus on cost control within BC Hydro and in the case of Site C, deferral of costs without a review is a concern.

- 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?

Response:

Yes. Recovery of SMI costs should match the period SMI is actually in service for.

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?

Response:

The AMPC recommendation applies to the current test periods and into the future.

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?

Response:

AMPC supports the DARR level that was agreed to among BC Hydro and interveners in the F2011 NSA and the underlying mechanism.

The NSA states that BC Hydro shall:

"i. provide an analysis of, and propose in its next RRA, a DARR effective April 1, 2011, based on a 5 year amortization of the Trade Income Deferral Account (TIDA) and 10 year amortization of the Non-Heritage Deferral Account (NHDA) and Heritage Deferral Account (HDA), all based on the Deferral Account balances as of September 30, 2010 (\$766.8 million). In that context, and to address the first item of particular concern to the BCUC Panel, BC Hydro shall address the recent significant increase in its Deferral Account balances, the experience with the current DARR adjustment mechanism including the potential for shorter amortization periods as BC Hydro's rates increase, and the concerns of some Parties that the current DARR adjustment mechanism does not reflect the multi-year variations in water inflows to BC Hydro's reservoirs. As part of that analysis, BC Hydro shall also address how the NHDA and HDA amortization could be optimized to lower the long term average cost of energy to current and future ratepayers. Other parties in the next RRA proceeding are

not precluded from advancing other analysis and views of the Deferral Account balances and clearing mechanisms;”

- 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.

Response:

AMPC refers BCSEA to the F2011 NSA and the Attachment 1 to the AMPC Evidence dealing with volatility and the clearing of deferral accounts.

- 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.

Response:

Absent distortions created by rate increase management through deferrals, AMPC expects that the NSA DARR mechanism will result in recoveries over 9-10 years.

In the reference cited by BCSEA, BC Hydro notes the deferral of \$222.5 million in costs. AMPC noted in its evidence that \$433 million in such costs had been deferred and are not appropriate for recovery in the DARR mechanism, as they are for the purpose of rate smoothing.

- 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."

Response:

Please see AMPC's response to BCSEA IR No. 1.9.2.

- 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.

Response:

Please see AMPC's response to BCSEA IR No. 1. 23.1. The purpose of the Review Panel recommendations and specified rate increase limits is to restore a focus on cost control within BC Hydro. Increasing amortization periods, advancing credits and deferring yet more costs does not reduce costs or promote cost control.

- 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?

Response:

Confirmed. AMPC supports BC Hydro's outcome, but not its methodology. Please see AMPC's response to BCSEA IR No. 1. 2.3.1. AMPC supports achievement of the specified rate increase levels through real reductions of expenditures by BC Hydro, as opposed to deferral of current period costs, increased amortization periods, adjusted forecasts or other mechanisms that reduce pressure for BC Hydro to focus on cost effectiveness throughout the test period and beyond.

- 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%?

Response:

Yes.

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.

Response:

This reference relates to any DSM expenditures that can still be halted. Please refer to AMPC’s response to BCOAPO IR No. 1.5.2.

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?

Response:

AMPC supports the DARR level agreed to in the F2011 NSA and the underlying formula.

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

Response:

AMPC has not linked the amortization of CoE deferrals and DSM in its evidence.