

Hunter Litigation Chambers

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May 15, 2012

File no: 1531.006

Via E-mail

Alanna Gillis
Acting Commission Secretary
British Columbia Utilities Commission
P.O. Box 250
6th Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Gillis:

**Re: Project No. 3698622 British Columbia Hydro and Power Authority (BC Hydro)
Amended F2012-F2014 Revenue Requirements Application
COPE Responses to Information Request No. 1 of BC Hydro and Power
Authority, BCOAPO, BCSEA/SBC and AMPC**

Please find attached on behalf of COPE the following responses to the Information Requests delivered in respect of Mr. Pullman's evidence (Exhibit C2-16):

- (a) COPE Responses to BC Hydro and Power Authority Round 1 Information Requests (Ex. B-28);
- (b) COPE Responses to BCOAPO Round 1 Information Requests (Ex. C1-15);
- (c) **COPE Responses to BC Sustainable Energy Association and Sierra Club of British Columbia Round 1 Information Requests (Ex. C10-15); and**
- (d) COPE Responses to Association of Major Power Consumers Round 1 Information Requests (Ex. C18-11).

Please call or email if you have any questions or require any further information.

Yours truly,

Hunter Litigation Chambers

Per:



Mark S. Oulton

MSO/bb

Encls.

cc Distribution List – BC Hydro F2012 – F2014 RRA

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

Information Request No. 1.1 to COPE

Project No. 3698622

British Columbia Hydro and Power Authority Amended F2012 to F2014 Revenue Requirements Application

1.0 Topic: Deferral policy for DSM support costs

Reference: Exhibit C2-16, Direct Evidence of Anthony J. Pullman, pp.4, 16-18

“11. That the Commission direct BC Hydro to cease deferring as DSM costs, those costs that support its DSM program.

1.1 Is the rationale for Mr. Pullman’s recommendation that DSM program support costs not be deferred limited to the proper accounting treatment, or does it extend to the perceived merits of such spending? If the latter, please explain.

Response:

The rationale for Mr. Pullman’s recommendation is based on a combination of both proper regulatory treatment and the merits (or absence thereof) of deferring such spending, amortizing it over a period of 15 years, during which time BC Hydro incurs interest expense on the money it has had to borrow to fund the expenditures, as well as earns a return on 30% of the unamortized balance.

In the preamble to his evidence Mr. Pullman opined that:

“[I]n principle I have always believed that for rate regulated utilities, such as BC Hydro, the actions of a regulator can create assets and liabilities for rate-making purposes and that under these conditions, rate-making trumps generally accepted accounting principles. Thus the action of a regulator can direct a utility to set rates and keep its books on a basis that would not be possible for other companies whose rates were not set by an independent regulator”.

BC Hydro, in its response to BCUC 1.139.1, cites Commission Order G-55-95 as its authority for deferring DSM program administration costs. Order G-55-95 states in part:

(b) Direct program costs, indirect administration costs and allocated overhead, shall be deferred according to the intent of section 3450 - Research and Development, of the Canadian Institute of Chartered Accountants, Accounting Recommendations Handbook. Generally speaking, those criteria treat research costs as expenses and treat as assets, those development costs that have a high probability of achieving net financial benefits.

BC Hydro points out that Section 3450 – Research and Development, of the Canadian Institute of Chartered Accountants (CICA) Accounting Recommendations Handbook, was replaced by Section 3064 – Goodwill and Intangibles, in 2008 (Exhibit B-15, BCUC 1.39.1).

BC Hydro, in its response to COPE 2. 87.1, claims that

“[T]he referenced activities are integral to the success of the Updated DSM Plan and the achievement of the Plan’s electricity savings. As such, to properly match the recovery of DSM costs with the realization of benefits over time, it is appropriate to defer and amortize the related expenditures” (Exhibit B-25, COPE 2.87.01)”.

Accordingly, it seems that the Commission originally permitted the deferral of indirect administration costs and allocated overhead in a way that would broadly comply with the intent of Canadian GAAP. Following a review of the new handbook section 3064 to see what GAAP explicitly considers not to be expenditures that can be considered to be development, it is possible to (i) compare this with BC Hydro’s descriptions of the programs and initiatives in Attachment 4 to Appendix II to Exhibit B-1-3 to see what is clearly not deferrable as development expenditures by Canadian GAAP; and (ii) consider whether the expenditures can be considered by this Commission as suitable for deferral and amortization over 10 or 15 years.

Section 3064 states that the following expenditures are not deferrable as development costs:

- research activities, which are described as: activities aimed at obtaining new knowledge; the search for, evaluation and final selection of, applications of research findings or other knowledge; the search for alternatives for materials, devices, products, processes, systems or services; and the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services;
- selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
- expenditure on training staff to operate the asset;
- training activities; and
- advertising and promotional activities.

(Source: Section 3064, para 39, 50 and 52 in part)

An examination of Attachment 4 to Appendix II finds the following description of activities undertaken and presently deferred (all references in the next paragraphs are to Attachment 4 and the page number to the **bold** numbering out of 250):

Rate Structures

- Residential activities include: “Planned activities include: rate design modelling, conservation and customer impact analysis, bill and revenue impact analysis, customer and stakeholder consultation, and development of an application to the BCUC” (p. 109);
- LGS activities comprise: “post-implementation customer support” (p.110);

- MGS activities include: “training of call centre staff” (p.111);
- TSR activities comprise: “ongoing post-implementation customer support” (p.111).

Mr. Pullman’s opinion is that the bulk of rate structures’ expenditures would fail the GAAP test and would also not qualify for 15-year deferral and amortization. However, he does recognize however that many commissions allow utilities to defer their third-party incremental costs of rate applications and to amortize them over the test period.

Sector Enabling Activities

Residential

BC Hydro states that “[R]esidential sector enabling activities “...do not achieve direct energy savings, ...[but] are critical success drivers for securing energy savings through programs”. The three key residential sector enabling activities are Home Energy Performance Labelling; Retail Initiative; and Partner Training, as follows:

- the home energy performance labelling “will equip consumers with the knowledge of how much energy a home will consume and allow for an informed purchase or renting decision”;
- the retail initiative involves BC Hydro working with retailers, distributors and manufacturers to lay the foundation for program-specific campaigns and activities; and
- the partner training initiative provides training to tradespeople and partners to enable them to deliver energy efficiency solutions (p.118-19)”.

Commercial

Commercial sector enabling activities support commercial DSM programs in achieving their respective energy savings and market transformation objectives by providing education, training and information, building customer and industry capacity to undertake energy efficiency projects and further motivating customers to participate in programs.

The three key commercial sector enabling activities are Power Smart Alliance, e.Catalog, and Education and Training.

“The Power Smart Alliance fosters collaborative relationships with members and trade allies to promote, design and implement energy management services for commercial customers.

BC Hydro delivers training for the Power Smart Alliance members to ensure they are educated and trained on energy efficiency and conservation” (p.127).

”Expenditures for e.Catalog support the maintenance and evolution of its self-serve online functionality”.

“This initiative[Education and Training] includes integrating energy efficiency and conservation modules within all disciplines of academic institutions, training and workshops provided to

customer staff and trade allies and the development of case studies and other materials to educate customers and trade allies”(p.128).

Industrial

“Industrial sector enabling activities support industrial DSM programs in achieving their respective energy savings and market transformation objectives by building capacity within customers and trade allies to undertake energy efficiency projects and by further motivating customers to participate in industrial programs” (p.132).

The two key industrial sector enabling activities are Power Smart Alliance and Education and Training, which are similar in nature to the commercial programs of the same name discussed above.

Again, Mr. Pullman’s opinion is that the bulk of the three sector enabling activities’ expenditures relate to training and would fail the GAAP test and would also not qualify for 15-year deferral and amortization.

Supporting Initiatives

Public Awareness and Education

BC Hydro states that the public awareness and education initiative includes four key elements:

- Public Education and Information Advertising;
- Youth & Education;
- Digital; and
- Leaders.

Public Education and Information Advertising comprises “media strategies to reach BC Hydro’s residential and business customers with messages intended to elevate awareness of efficiency and conservation, promote the Power Smart brand and drive conservation action” (p.136).

Youth & Education “targets and engages those under 25 to foster a conservation culture in B.C. through comprehensive, relevant school programs and initiatives” (p.137).

BC Hydro’s Digital initiative “comprises four primary channels which reach almost three million views monthly and are an essential resource for British Columbians seeking credible and current information and tools for energy conservation”(p.137).

BC Hydro’s Leaders are “celebrities, athletes, and business owners who support energy conservation and sustainability and have agreed to lend their name and time to helping BC Hydro promote conservation” (p.137).

Mr. Pullman’s opinion is that the bulk of these expenditures relate to advertising and promotion, which are not considered eligible for deferral under Section 3064 of the CICA Handbook, and which do not appear to be suitable for deferral and 10 to 15-year amortization.

Community Engagement

BC Hydro states that “[T]he objectives of this initiative are to leverage the potential of communities and local governments across B.C. to embed conservation into community planning and development and to increase awareness and acceptance of energy conservation and efficiency, aligning with the community engagement goals described in the DSM Regulation” (p.138).

There are three key elements under the Community Engagement initiative:

- (i) Local Government Engagement
- (ii) Direct Public Engagement
- (iii) Engagement through Partners

Local Government Engagement “actions include developing the capacity within local governments for energy conservation and efficiency through education of local government staff and elected officials and by providing support for Community Energy Managers” (p.138).

The Direct Public Engagement initiative “includes a BC Hydro outreach team that attends community events, retail stores, high traffic locations like shopping malls, as well as individual homes and businesses providing direct engagement with the public on energy conservation with the intent of increasing awareness and education” (p.139).

“Power Smart sponsorship of sporting, cultural and other events provides opportunities for the BC Hydro outreach team to have an onsite presence, speaking opportunities and/or unique promotional opportunities” (p.139).

Mr. Pullman’s opinion is that the bulk of these expenditures relate to advertising and promotion, which are not considered eligible for deferral under Section 3064 of the CICA Handbook, and which do not appear to be suitable for deferral and 10 to 15-year amortization.

Codes and Standards

BC Hydro states that “[T]he implementation of codes and standards and other public policy instruments represents the final step in the market transformation process. This initiative aims to ensure that this final market transformation step does occur, so as to guarantee long-term energy savings.

BC Hydro supports codes and standards with activities to: 1) identify the appropriate scale of energy savings that could be achieved by changes to government policy instruments, such as regulations; and 2) provide significant support to help bring about the changes to codes and standards identified here, as well as other potential changes that arise over time” (p.140).

Mr. Pullman’s opinion is that the bulk of these expenditures relate to research as defined by the CICA Handbook, which are not considered eligible for deferral under Section 3064 of the CICA Handbook, and which do not appear to be suitable for deferral and 10 to 15-year amortization.

Technology Innovation

BC Hydro states that “[T]he objective of this initiative is to identify world-leading energy efficient technologies suitable for B.C. and accelerate their adoption among residential, commercial and industrial customers in B.C.”.

The initiative includes the following five strategies:

- Identify Emerging Technologies and Practices Suitable for B.C.;
- Develop Roadmaps to Support Market Transformation;
- Advance Technologies to Markets;
- Leverage Resources through Partnerships; and
- Share and Disseminate Market Intelligence (p.142-43).

Mr. Pullman’s opinions that the bulk of these expenditures relate to research as defined by the CICA Handbook, which are not considered eligible for deferral under Section 3064 of the CICA Handbook, and which do not appear to be suitable for deferral and 10 to 15-year amortization.

Information Technology

BC Hydro states that “[I]nformation technology provides targeted computer applications and content for BC Hydro customers, partners, trade allies and staff that are necessary to implement the Updated DSM Plan. The applications are a combination of custom development and off the shelf components and applications and generally fall into two categories: Customer Facing Systems and Internal Systems for Tracking and Reporting” (p.143).

It is possible that some of these expenditures might qualify for deferral under Section 3064 if they relate to the development of computer applications or programs to support new PowerSmart products. Forecast expenditures are \$0.8 and \$1.0 million in F2012 and F2013 respectively.

Indirect and Portfolio Enabling

BC Hydro states that “[T]he indirect and portfolio enabling activities are an important component of the Updated DSM Plan in that they provide general management and infrastructure that is critical to the effectiveness and integrity of DSM initiatives” (p.144).

The activities include:

- “General – A portion of the Power Smart business unit's general management of people and resources;
- Support and Administration – A portion of the Power Smart business unit's general administrative functions including costs associated with reception and administrative assistants, photocopy and fax equipment, office supplies, as well as a portion of labour for individual timesheets, expense reporting and benefits administration;
- Information Systems – Support, operation and management of DSM information systems as well as the planning and management of system enhancements and new functionality;
- Regulatory - Activities that support regulatory filings and reporting;

- Strategy and Policy - The development, updating and review of DSM strategy and policies.
- Planning - The development, updating and review of both long-term and operational DSM plans, including DSM modelling and cost-effectiveness analysis;
- Processes and Documentation - Support activities related to the development, administration and review of general processes and procedures related to the effectiveness, quality and integrity of DSM activities; and
- DSM-related Training and Education - Individual employee training related to DSM, including technical seminars and attendance at conferences” (p.144-45).

It is clear that these expenditures are administrative in nature and would be considered ineligible by Section 3064. Furthermore, Mr. Pullman does not consider that they are suitable for deferral and 10 to 15-year amortization.

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

Information Request No. 1.2 to COPE

Project No. 3698622

British Columbia Hydro and Power Authority Amended F2012 to F2014 Revenue Requirements Application

1.0 Topic: Deferral policy for DSM support costs

Reference: Exhibit C2-16, Direct Evidence of Anthony J. Pullman, pp.4, 16-18

“11. That the Commission direct BC Hydro to cease deferring as DSM costs, those costs that support its DSM program.

1.2 Does any of the various sets of accounting rules directly address amortization of DSM program support costs in the context of a regulated public utility such as BC Hydro? If so, what is said?

Response:

CICA Handbook section 3064 (COPE IR 2.88.1 Attachment 2) addresses amortization of costs which qualify as intangible assets. Relevant excerpts follow:

.55 A recognized intangible asset should be amortized over its useful life to an enterprise, unless the life is determined to be indefinite. When an intangible asset is determined to have an indefinite useful life, it should not be amortized until its life is determined to be no longer indefinite. [JAN. 2002]

.56 The amortization method and estimate of the useful life of an intangible asset should be reviewed annually. [JAN. 2002]

.57 When an intangible asset has a finite useful life, but the precise length of that life is not known, the intangible asset is amortized over the best estimate of its useful life.

.59 The method of amortization will reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up. PROPERTY, PLANT AND EQUIPMENT, Section 3061, provides guidance on amortization methods. When the pattern of economic benefits cannot be reliably determined, a straight-line amortization method is used.

.60 The estimate of the useful life of an intangible asset is based on an analysis of all pertinent factors, in particular:

(a) the expected use of the asset by the enterprise;

(e) the effects of obsolescence, demand, competition and other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels);

.63 An intangible asset that is subject to amortization should be tested for impairment in accordance with the provisions of IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063. [JAN. 2002 *]

Mr. Pullman's only comment is that BC Hydro seems to consider DSM as all one "pot" to be amortized rather than separate assets to be amortized on a program by program basis. It is also unclear whether the unamortized balances are reviewed annually to see if any impairment has taken place.

The Commission seems to have addressed impairment when it stated at para 4 of Appendix A to G-55-95:

"When management concludes that a program, representing significant or material cost, has failed and no remedial action appears probable, then a partial or full abandonment may occur. The unamortized costs of the abandoned program or portion shall be amortized using a rapid write-off" (COPE IR 2.88.1 Attachment 1).

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

Information Request No. 2.1 to COPE

Project No. 3698622

British Columbia Hydro and Power Authority Amended F2012 to F2014 Revenue Requirements Application

2.0 Topic: Deferral policy for DSM support costs

Reference: Exhibit C2-16, Direct Evidence of Anthony J. Pullman, p.18

“Finally I would point out that there are two other Crown Corporations in Canada that defer and amortize DSM expenditures (Hydro Quebec and Manitoba Hydro) and that neither defers program costs.” [underline added]

2.1 Should the underlined phrase read “program support costs”?

Response:

It should indeed. The reference for the corrected statement is Exhibit B-16-1 COPE 1.38.2 which states that effective F2012 Manitoba Hydro began to expense “DSM Administrative Costs” in the year incurred and that was also the practice of Hydro-Quebec.