

**Fred James**

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November 8, 2017

Mr. Patrick Wruck
Commission Secretary and Manager
Regulatory Support
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

**RE: Project No. 3698869
British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
Fiscal 2017 to Fiscal 2019 Revenue Requirement Application**

BC Hydro writes, pursuant to sections 58-60 of the *Utilities Commission Act*, to amend our requests as they relate to fiscal 2019 as follows:

- (i) Change the requested rate increase for fiscal 2019 from 3 per cent to 0 per cent, and
- (ii) Request that Open Access Transmission Tariff (**OATT**) rates for fiscal 2019 remain unchanged from fiscal 2018.

As explained below, our amended requests give effect to the B.C. Government's recent Mandate Letter to BC Hydro (**Attachment 1**), which contemplates a freeze of rates while a comprehensive review of BC Hydro is conducted, and while a refreshed plan to keep electricity rates low and predictable over the long-term is developed.

Background

On July 28, 2016, BC Hydro filed the Fiscal 2017 to Fiscal 2019 Revenue Requirements Application. The Application covered fiscal 2017 (the fiscal year starting April 1, 2016) to fiscal 2019 (the fiscal year starting April 1, 2018). We are currently part-way through fiscal 2018.

Our requested orders, as amended during the course of the proceeding, were summarized in Part Thirteen of our Final Submission. The requests included, among other things:

- Final approval to increase rates by an average of 4.0 per cent effective April 1, 2016, 3.5 per cent effective April 1, 2017 and 3.0 per cent effective April 1, 2018, which reflect the rate caps in section 9(1) of Direction No. 7;
- Final approval of OATT Rates for fiscal 2017, fiscal 2018 and fiscal 2019, effective April 1, 2016, April 1, 2017 and April 1, 2018, respectively, as set out in Appendix T to the Application;
- Approval of total revenue requirements of \$4,679.9 million for fiscal 2017, \$4,912.1 million for fiscal 2018 and \$5,136.1 for fiscal 2019 as set out in Schedule 1.0, page 2, line 35 of Appendix A¹, to be recalculated based on the updates, errata and commitments summarized in Part Thirteen of our Final Submission; and
- Acceptance pursuant to section 44.2 of the *Utilities Commission Act* of BC Hydro's demand-side management expenditure schedule of \$113.7 million for fiscal 2017, \$104.8 million for fiscal 2018 and \$100.7 million for fiscal 2019 as set out in Table 10-1 of the Application, plus the amounts for the Thermo-Mechanical Pulp project as revised in BC Hydro's response to BCUC IR 2.314.3.

The Commission has approved interim refundable rates for fiscal 2017 and fiscal 2018, pursuant to Order Nos. G-40-16, G-39-17 and G-46-17. It has made no orders with respect to fiscal 2019 to date.

On August 24, 2017, the B.C. Government issued its Mandate Letter to BC Hydro which among other things requests that BC Hydro will work with Government to:

“Freeze BC Hydro Rates and develop a refreshed plan to keep electricity rates low and predictable over the long-term while making significant investments to expand the system and maintain aging infrastructure.”

The Mandate Letter also outlines that a comprehensive review of BC Hydro will be undertaken.

Revised Requests

As such, BC Hydro is amending its request made in the Fiscal 2017 to Fiscal 2019 Revenue Requirements Application for a 3 per cent rate increase to 0 per cent for fiscal 2019 rates. BC Hydro is also amending its request for approval of the fiscal 2019 OATT rates² and requests that the OATT rates approved by the Commission for fiscal 2018 apply also for fiscal 2019.

¹ The total revenue requirements for fiscal 2017, fiscal 2018 and fiscal 2019 provided in the Draft Order, Appendix B of the Application differ slightly from the amounts provided in Appendix A of the Application due to rounding.

² Exhibit B-1-2, p. 9-20.

BC Hydro is maintaining its requests related to the fiscal 2019 demand-side management expenditure schedule as well as the total revenue requirements for fiscal 2019. Consistent with Direction No. 7, the portions of the allowed revenue requirement in a particular fiscal year that are not to be recovered in rates in that particular fiscal year are to be deferred to the Rate Smoothing Regulatory Account. The amount transferred to the account in fiscal 2019 is expected to change from the \$299.4 million³ included in the Application. The final amount to be transferred will be calculated as part of the compliance filing and will take into account adjustments committed to be made through the Revenue Requirements Application proceeding, any adjustments resulting from the Commission's order on the Application, as well as revenues that were expected to be received in fiscal 2019 as a result of the 3 per cent rate increase in the Application. The impact of the latter is expected to increase the transfer to the Rate Smoothing Regulatory Account in fiscal 2019 by approximately \$140 million.

BC Hydro is also maintaining its requested changes to deferral and regulatory accounts and associated financial treatment, as described in Chapter 7, summarized in Table 7-9 of the Application, and clarified in Part Nine E and F of the Final Submission. BC Hydro notes that the baseline forecasts in Table 7-3 of the Application, as corrected in Exhibit B-1-3, will need to be updated in BC Hydro's compliance filing to reflect the rate freeze in fiscal 2019 and any other compliance filing requirements.

The amendment of the fiscal 2019 rate increase from 3 per cent to 0 per cent is aligned with the Mandate Letter from Government. Since the development of the 2013 10 Year Rates Plan, both the Province and BC Hydro have taken action to keep our rates low and in line with the Plan. The Province and BC Hydro are committed to take further actions as required as part of the comprehensive review of BC Hydro that is expected to begin in fiscal 2018 and is likely to be completed in fiscal 2019. The comprehensive review of BC Hydro and refreshed plan for rates are expected to inform revenue requirement applications for subsequent fiscal years beginning in fiscal 2020.

BC Hydro has appended a restated form of the Final Order to reflect the amended requests as **Attachment 2** to this letter.

³ Exhibit B-1-1, Section 1.7.3, p. 1-44.

November 8, 2017
Mr. Patrick Wruck
Commission Secretary and Manager
Regulatory Support
British Columbia Utilities Commission
Fiscal 2017 to Fiscal 2019 Revenue Requirement Application

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For further information, please contact Fred James at 604-623-4046 or by email at bchydroregulatorygroup@bchydro.com.

Yours sincerely,



Fred James
Chief Regulatory Officer

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Enclosure

**Fiscal 2017 to Fiscal 2019
Revenue Requirements Application**

**Attachment 1
Government Mandate Letter**



AUG 24 2017

Ref.: 101514

Mr. Kenneth Peterson
Chair
BC Hydro and Power Authority
18th Floor, 333 Dunsmuir Street
Vancouver, BC V6B 5R3

Email: kenneth.peterson@bchydro.com

Dear Mr. Peterson:

On behalf of Premier John Horgan and our new government, thank you for your service to the people of British Columbia. I look forward to working with you in the months and years to come to help deliver on government's priorities, and provide effective programs and services to the people of our province.

This Mandate Letter lays out the principles of this government and you are to take these into consideration when revising your Service Plan for the *Budget 2017 Update*. It is expected that BC Hydro and Power Authority (BC Hydro) will manage its programs and initiatives within its existing budget targets, unless otherwise directed.

Going forward, you are to begin the process of working with me as the Minister responsible to develop strategic actions through the 2018 Mandate Letter process for *Budget 2018*. I will provide further direction. The Ministry of Finance will provide guidance on preparation for *Budget 2018*.

Our government made three key commitments to British Columbians.

Our first commitment is to make life more affordable. We expect all public service organizations to work to contain costs, and to be conscious of the impact of every decision on the daily cost of living of families and businesses.

Our second commitment is to deliver the services that people count on. In many cases, critical programs and services are delivered by Crown Corporations, and Ministers will work with Board Chairs to ensure your organizations remain focused on maintaining and improving levels of service to citizens.

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Ministry of
Energy, Mines and
Petroleum Resources

Office of the Minister

Mailing Address:
PO Box 9052, Stn Prov Govt
Victoria, BC V8W 9E2

Telephone: 250 953-0900
Facsimile: 250 356-2965

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Our third key commitment is to build a strong, sustainable, innovative economy that works for everyone. Our government believes that public sector organizations have a role to play in supporting broad-based economic growth in every region of the province.

To support true and lasting reconciliation with First Nations in British Columbia, our government will be fully adopting and implementing the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), and the Calls to Action of the Truth and Reconciliation Commission (TRC). Please ensure that going forward your organization incorporates the UNDRIP and TRC as appropriate, given the specific mandate and context of your organization.

As the Minister responsible for BC Hydro, I expect that BC Hydro will work with the Ministry of Energy, Mines and Petroleum Resources (Ministry) to:

- Participate fully in the British Columbia Utilities Commission review of Site C and impact on BC Hydro ratepayers associated with completing, suspending or terminating the project;
- Freeze BC Hydro rates and develop a refreshed plan to keep electricity rates low and predictable over the long-term while making significant investments to expand the system and maintain aging infrastructure;
- Continue to deliver your planned capital projects on time and on budget to maintain the reliability of the system;
- Conduct an immediate and comprehensive review of BC Hydro's activities, performance and organizational structure to identify potential efficiencies that could benefit ratepayers, and ensure that the organization is positioned to deliver on BC Hydro's objectives and government's priorities;
- Support the creation of a roadmap for the future of BC energy that will drive innovation, expand energy efficiency and conservation programs, generate new energy responsibly and sustainably, and create lasting good jobs across the province;
- Provide leadership in advancing government's climate action strategies, including through:
 - fuel switching and electrification initiatives in the transportation, oil and gas, and other sectors;
 - initiatives under the *Greenhouse Gas Reduction (Renewable and Low Carbon Fuel Requirements) Act*, to further reduce emissions in the transportation sector;
 - policies and programs to increase the energy efficiency of buildings;
- Provide comprehensive quarterly and annual performance reports to the Deputy Minister of Energy, Mines and Petroleum Resources on the status of BC Hydro finances and forecasts, as well as other initiatives and directions approved by the BC Hydro Board and the Minister of Energy, Mines and Petroleum Resources. This will include regular report backs on Site C progress in accordance with previous standing directions from government. As and when appropriate, also update the Deputy Minister of Energy, Mines and Petroleum Resources on other emerging trends and issues as they occur;

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- Identify further opportunities for clean energy in British Columbia to support BC's economic growth and meet the needs of customers;
- Perform system upgrades where necessary to ensure that BC Hydro is well-positioned to connect future customers in a timely and cost-effective manner;
- Continue to implement the five-year safety plan to ensure the safety of the BC Hydro workforce and the public; and
- Maintain or improve customer satisfaction by providing timely and responsive service.

As the Board Chair of a Crown Agency, your primary accountability to government is through me as the Minister responsible. My expectation is that regular dialogue and engagement between the Ministry and your organization will continue, starting with regular meetings between us over the coming weeks and months. Included in these meetings will be regular meetings between your communications staff and Government Communications and Public Engagement staff responsible for the communication of ministry-related matters.

The Crown Agencies Resource Office (CARO) has lead responsibility for overseeing and maintaining the Public Sector Organizations Governance Framework. CARO has now integrated with the Board Resourcing and Development Office (BRDO) which provides leadership in the merit-based appointment of qualified and competent individuals to the Crown Agencies. All Crown Corporations and other public agencies are asked to work closely with this Office on Board member appointments, all governance matters including orientation and training of Board members, and on accountability to government generally.

I look forward to regular meetings to discuss progress on your strategic priorities and to ensure you and your organization are supported in delivering your mandate on behalf of the people of British Columbia.

Sincerely,



Michelle Mungall
Minister



Kenneth Peterson
Chair
BC Hydro

Date: AUG 24 2017

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cc: Honourable John Horgan
Premier

Mr. Don Wright
Deputy Minister to the Premier and Cabinet Secretary

Mr. Dave Nikolejsin
Deputy Minister
Ministry of Energy, Mines and Petroleum Resources

Ms. Lori Wanamaker
Deputy Minister
Ministry of Finance

Mr. David Galbraith
Associate Deputy Minister and Secretary to Treasury Board
Ministry of Finance

Ms. Lynne Holt
Executive Lead
Board Resourcing and Development Office

Mr. Bill Adsit, Director
BC Hydro

Mr. Len Boggio, Director
BC Hydro

Mr. Jamie Brown, Director
BC Hydro

Mr. James P. Hatton, Director
BC Hydro

Ms. Valerie Lambert, Director
BC Hydro

Ms. Janine North, Director
BC Hydro

Mr. John Ritchie, Director
BC Hydro

**Fiscal 2017 to Fiscal 2019
Revenue Requirements Application**

**Attachment 2
Restated Form of Final Order**

Restated Form of Final Order

BC Hydro included a specific form of Final Order in Appendix ~~B7~~ of its Application. In Part Thirteen of its Final Submission, BC Hydro restated the form of Final Order to reflect our updates, errata and commitments during the proceeding. In the paragraphs below, BC Hydro provides a blacklined version of its restated form of Final Order to reflect its revised requests:

1. The requested final rate increases of 4 .0 per cent, and 3.5 per cent ~~and 3.0 per cent~~, to be applied as set out in Appendix T of the Application, are approved effective April 1, 2016, and April 1, 2017 ~~and April 1, 2018~~, respectively. The requested final rate increase of 0.0 per cent is approved effective April 1, 2018.
2. The requested final OATT rates for fiscal 2017, and fiscal 2018, ~~and fiscal 2019~~ as set out in Appendix T of the Application, as corrected in Errata No. 1 (Exhibit B1-2) are approved effective April 1, 2016, and April 1, 2017 ~~and April 1, 2018~~, respectively. The request that the final OATT rates for fiscal 2018 also apply for fiscal 2019 is approved. The difference between the final OATT rates and the interim refundable OATT rates is to be collected from applicable OATT customers through a one-time charge as described in Chapter 9 of the Application.
3. BC Hydro is directed to re-calculate its revenue requirements, including its rate of return, based on the updates, errata and commitments made by BC Hydro as summarized in Part Thirteen of its Final Submission and any Commission directives in the proceeding.
4. Pursuant to Direction No. 7, BC Hydro is directed to record in the Rate Smoothing Regulatory account for each year of the test period the difference between BC Hydro's recalculated revenue requirements and the revenues expected to be collected under the approved rates.

5. The requested depreciation rates for property, plant and equipment at the Burrard Synchronous Condense facility as set out in Table 8-1 of the Application are approved.
6. The requested changes to deferral and regulatory accounts and associated financial treatment, as described in Chapter 7, summarized in Table 7-9 of the Application and clarified in Part Nine E and F of the Final Submission, are approved.
7. The requested demand-side management expenditure schedule for fiscal 2017, fiscal 2018 and fiscal 2019, as set out in Table 10-1 of the Application and revised in BC Hydro's response to BCUC IR 2.314.3, is accepted, for a total expenditure over the test period of \$361.1 million.
8. BC Hydro will comply with all other directives in the Decision accompanying this Order.
9. BC Hydro is directed to file within 60 days of this order a revised Appendix A to the Application and updated rate schedules, reflecting the Commission's Order and Decision and BC Hydro's commitments articulated in Part Thirteen of its Final Submission.