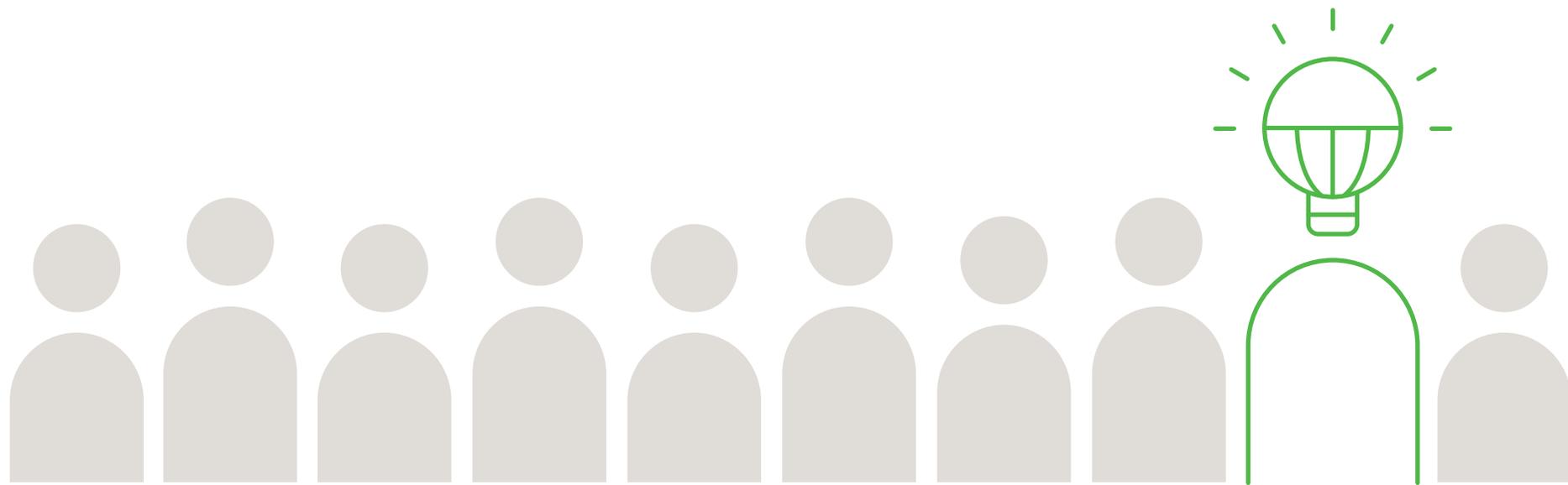


Capital Expenditure & Project Review

BC HYDRO CAPITAL EXPENDITURES
AND PROJECTS REVIEW EXHIBIT B-5

Transcribed Workshop



May 23, 2018

Agenda

- Introduction
- Proposed 2018 Capital Filing Guidelines
 - Scope of Review in Revenue Requirements Applications
 - Major Project Applications
 - Compliance Reporting
- Revisions in Updated Proposal
- Next Steps
- Questions

Introduction



Regulatory Process

- On May 3, 2016, the BCUC issued Order G-58-16 establishing a proceeding to review the regulatory oversight of BC Hydro's capital expenditures and projects.
- A possible outcome of the proceeding is Commission approval of BC Hydro's Capital Project Filing Guidelines.
- On May 10, 2016, the BCUC issued the "Proposed Scope of the Issues and Timing", which was accepted by BC Hydro and registered interveners.
- Following the procedural conference held November 17, 2016, the BCUC issued an Order setting the scope as previously outlined, and setting the review process and timetable.
- Following the Decision in the revenue requirements proceeding, the BCUC issued an Order amending the date for filing the Initial Proposal to April 3, 2018.
- BC Hydro received clarifying technical questions from the BCUC and registered interveners on April 24, 2018 with responses filed May 18, 2018.

Proceeding Scope

- Scope of the Proceeding was set out in Appendix B to Order G-63-16.
- Scope, timing, process for review of capital expenditures and appropriateness of such reviews in various filings including:
 - RRA
 - Projects approved or started prior to an RRA and expected to enter service in the test period, or outside the test period.
 - Projects exceeding the thresholds and not approved or started prior to RRA and expected to enter service in test period, or outside test period.
 - Projects below thresholds and not approved or started prior to RRA and expected to enter service in test period, or outside test period
 - Annual Report; Project Specific compliance filings; Applications for CPCN (Section 46.1 of UCA) or Section 44.2 of UCA.
 - The Proceeding should address the following issues:
 - Clarity on what constitutes a project;
 - Standardized convention for naming and tracking projects;
 - Strategy to review projects linked to capital strategies.

Proceeding Scope

- Appropriateness of BC Hydro's 2010 Capital Project Filing Guidelines for IT Projects, or propose separate IT filing guidelines.
- Appropriateness of expenditure thresholds in BC Hydro's 2010 Capital Project Filing Guidelines.
- Circumstances under which it is appropriate for BC Hydro to file a CPCN application versus a Section 44.2 application, addressing the following:
 - Seek input on the position that for CPCNs, applications are only filed for extensions.
 - Evaluate whether or not it is appropriate for extensions to include general plant and IT projects.
 - Given that a utility is prohibited from starting a project until a CPCN is issued, consider the appropriateness of filing Section 44.2 applications for projects where the duty to consult First Nations is triggered.
- BC Hydro developed its Initial Proposal to address each of the scope items included in Appendix B to Order G-63-16.

Initial Proposal Development

- BC Hydro established a Working Group to review the 2010 Capital Project Filing Guidelines and the proposed scope, and to develop the Initial Proposal.
- The Working Group was made up of individuals from Integrated Planning, Project Delivery, Properties, Information Technology, and Finance, and considered items such as:
 - Major Project application threshold values and categories
 - The review of programs vs projects
 - Mechanism for the review of projects linked to capital strategies, plans, and studies
 - Ease of tracking projects across filings - naming conventions & unique planning identification numbers.
- BC Hydro established a Steering Committee to oversee development of the Initial Proposal.
- The Initial Proposal was reviewed and endorsed by Executives.

Purpose of Workshop

- Commission set out expectations for the workshop in Exhibit A-12 issued on May 4.
- The objective of the workshop is to improve participants understanding of the Initial Proposal and support development of the revised proposal.
- BC Hydro hopes to accomplish the following:
 - Get feedback from the BCUC and interveners on the Initial Proposal including the proposed 2018 Capital Filing Guidelines.
 - Explain and provide further clarity on the proposed 2018 Capital Filing Guidelines.
- BC Hydro will seek to respond to clarifying questions within the scope of the proceeding.
- BC Hydro will incorporate feedback as appropriate in its Revised Proposal to be filed June 13.

Proposed Capital Filing Guidelines



Initial Proposal

- Initial Proposal was developed to respond to the scope items outlined in Commission Order G-63-16
- Chapter 2 provides an overview of BC Hydro capital investments.
- Chapter 3 provides discussion on the oversight of capital investments by Commission and by BC Hydro. Capital investment portfolio performance is summarized.
- Chapters 4 through 9 include BC Hydro's views on the appropriate scope of Commission's review in RRA processes; guidelines for major project applications; clarity on programs; Strategies, plans and studies; various compliance reporting; and other matters related to form and content in RRA, CPCN and Sec 44.2 applications.
- The 2018 Proposed Capital Project Filing Guidelines incorporate changes discussed in the Initial Proposal and are discussed in more detail in the following slides.

Proposed Capital Filing Guidelines

- BC Hydro is of the view the 2010 Capital Project Filing Guidelines are working well and capturing BC Hydro's most significant capital projects for review by the Commission.
- The proposed 2018 Capital Filing Guidelines has expanded on the scope of the 2010 Capital Project Filing Guidelines to reflect the following:
 - Includes guidance on scope of review in Revenue Requirements Applications;
 - Includes guidance on new information in Revenue Requirements Applications - Appendices I and J, and a new Appendix for strategies, plans, and studies;
 - Changes to the Major Project application threshold categories to include all work on power system assets in one category with a \$100 million threshold;
 - Includes guidance on capital expenditures included in the Annual Report; and
 - Includes guidance on the manner, form, and timing of project-specific progress and final reports.
- The proposed guidelines continue to allow for a fair and efficient process.

Scope of Review of RRA: Major Projects

- Projects with a CPCN, accepted expenditure schedule, or an exemption with expenditures or additions in the test period:
 - Project need, alternatives, forecast cost, schedule, and public interest issues have been considered and approved or exempted.
 - The scope of review in a revenue requirements proceeding may include consideration of the execution of projects and forecast total cost.
 - For projects with an issued CPCN or accepted expenditure schedule, BC Hydro will be providing ongoing project progress reports.
 - For regulatory efficiency, detailed consideration of BC Hydro's project execution is best reviewed at project completion when actual cost and project outcomes are known.

Scope of Review of RRA: Major Projects

- Projects subject to a future CPCN or expenditure schedule application with expenditures or additions in the test period:
 - Detailed consideration of need and alternatives is best left to the Major Project application.
 - Major Project application will consider need, alternatives, cost, schedule, and public interest issues as outlined in the Commission's 2015 CPCN Guidelines.
 - The scope of review in a revenue requirements proceeding may test the reasonableness of the forecast capital expenditures and additions. However, Capital Additions Regulatory Account will capture any timing differences between forecast and actual capital additions.
 - For regulatory efficiency, detailed consideration of BC Hydro's project execution is best reviewed at project completion when actual cost and project outcomes are known.

Scope of Review of RRA: Other Projects

- Projects not meeting the criteria for a Major Project application that have capital expenditures and additions in the test period:
 - BC Hydro expects the majority of capital projects will be reviewed within this category in revenue requirements.
 - May include an examination of need, alternatives, and the reasonableness of the forecast.
 - BC Hydro considers that it is appropriate to focus on capital additions rather than capital expenditures.
 - Detailed consideration of project execution is best reviewed at project completion when actual cost and project outcomes are known.

Scope of Review of RRA: Recurring Capital Programs

- Recurring Capital Programs are best reviewed in revenue requirements applications.
- Recurring Capital Programs consist of:
 - Work Programs: highly standardized high volume and low complexity asset replacements; and
 - Acquisitions: one-time and recurring annual purchases.
- Work is often placed into service in the same year the expenditure is made.

Scope of Review of RRA: Program of Projects

- Individual projects in Program of Projects best reviewed in revenue requirement applications or, if meeting the criteria for a CPCN or 44.2 application, in a Major Project application.
 - Program of Projects include individual projects with standalone benefits that can be achieved independent of other projects.
 - Individual projects often at different stages of development with different levels of project definition.
 - Projects can be added to or removed from a program over time.
 - Managing individual projects as a program provides advantages in areas such as procurement and managing system interdependencies.
- A few Programs of Projects can be funded with one business case, but should not be treated as a single project as these consist of low risk, repeatable projects.

Scope of Review in RRA: Enhancements to RRA to Facilitate Review

- New information in Appendix I:
 - The project's unique planning identification number to help track projects and programs across filings;
 - An indication of which strategies, plans, or studies a project is linked to, if applicable; and
 - An indication of which program a project is part of, if applicable.
- New information in Appendix J:
 - Implementation Phase risk and risk mitigation
 - Implementation Phase impacts and benefits.
- New Appendix:
 - Descriptions of the strategies, plans, or studies identified.

Major Project Applications: CPCN or Expenditure Schedule Filing

- BC Hydro will file a CPCN application for Major Projects that are extensions.
- BC Hydro interprets an extension project to be one that is initiated with the intent to expand the geographic service area or capacity of a utility plant or system.
 - Power System facility end of life replacements;
 - New projects designed to serve incremental energy and/or peak load growth; and
 - Refurbishment projects that are not undertaken to serve incremental load growth, but through efficiencies result in additional capacity and energy on a planning basis.
- BC Hydro commits to filing an expenditure schedule application for Major Projects that are not extensions.

Major Project Applications: Thresholds & Categories

- BC Hydro proposes three major project thresholds and categories:
 - \$100 million threshold for Power System projects. These are generation, transmission, substation, distribution, and dam safety projects.
 - This will increase the threshold for distribution projects from \$50 million to \$100 million.
 - \$50 million threshold for Buildings projects. These are building development and building improvement projects.
 - \$20 million threshold for Information Technology.
- This is estimated to result in 23 Major Project applications representing 20-30% of non-exempt capital expenditures over the next decade.

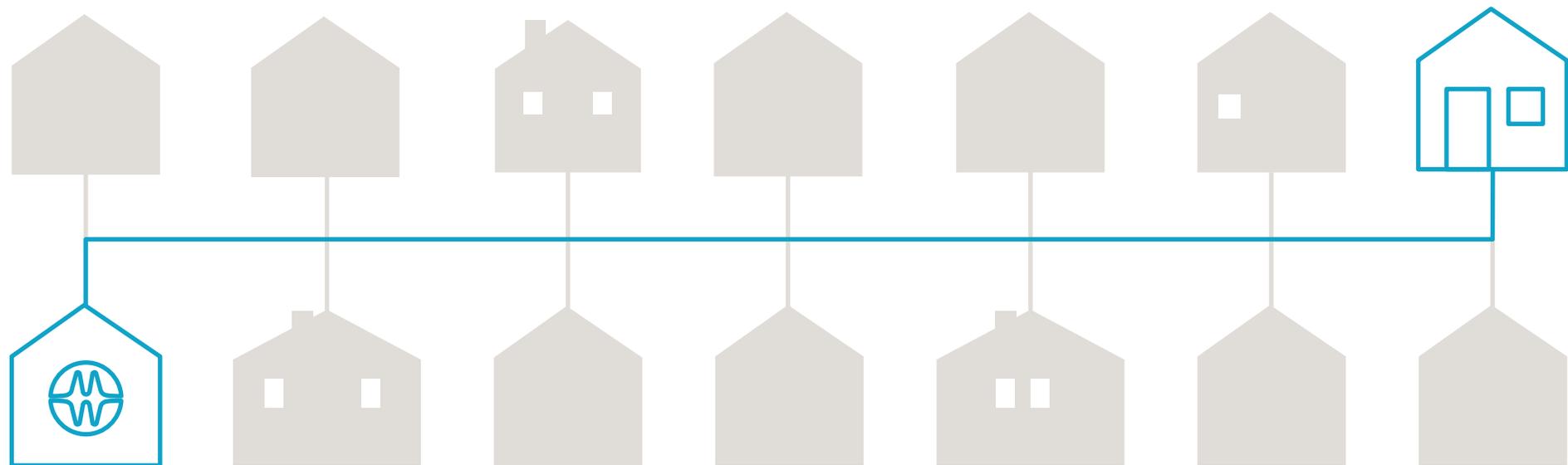
Compliance Reporting: Annual Financial Report

- BC Hydro files the Annual Financial Report providing information on the immediate past fiscal year
 - Annual Financial Report does not lead to any Commission decision on rates, a CPCN, or expenditure schedule.
 - Capital expenditures in the Annual Financial Report include comparisons between planned and actual capital expenditures at end of reporting period.
 - Pursuant to section 45(6) of the UCA, BC Hydro will continue to provide a listing of all projects, which are considered extensions and are above the agreed upon materiality limit, in section 7 of the report.

Compliance Reporting: Project-Specific Reports

- BC Hydro files project-specific reports in the manner, form, and timing as ordered by the Commission:
 - BC Hydro proposes to file semi-annual progress reports for most projects, and will request annual progress reports for some projects depending on their implementation schedule.
 - BC Hydro proposes to submit the Project Final Report after the report has been tabled before the Board of Directors.

Revisions in Updated Proposal



Revisions in Updated Proposal

- In paragraph 3 and 4 of the proposed 2018 Capital Filing Guidelines, BC Hydro will remove the words “and have not been reviewed in a previous test period”.
- Remove the word “capability” from the definition of extension in the body of the Proposal.
- Three projects meeting the criteria for a Major Project application inadvertently omitted from the list included in the Initial Proposal, bringing the total number to 23 over the next decade.
- Corrected phrase in Initial Proposal that programs are “usually planned and financially approved with a single business case”. Most programs are not financially approved with a single business case.
- To identify projects within a program, BC Hydro will indicate in Appendix I if a project is part of a program.

Next Steps

- BC Hydro will consider the comments/questions raised in the Workshop for inclusion in our Revised Proposal;
 - Any changes will have to be considered in the context of BC Hydro's current planning processes and project delivery practices as outlined in the Initial Proposal.
- BC Hydro is to file its Revised Proposal on June 13, 2018.
- Procedural conference is scheduled for June 27, 2018.





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