

REQUESTOR NAME: **BC Sustainable Energy Association and Sierra Club BC**
INFORMATION REQUEST ROUND NO: 1
TO: **Commercial Energy Consumers**
DATE: **November 17, 2018**
PROJECT NO: **3698877**
APPLICATION NAME: **BC Hydro Review of the Regulatory Oversight of
Capital Expenditures and Projects**

1.0 Topic: Proceeding history and proposed outcomes
Reference: Exhibit C2-10, David Craig Evidence

In December 2015, the Commission received a letter of complaint regarding BC Hydro's conversion to SAP as its Information Technology platform. During the course of submissions, BC Hydro suggested two additional steps: one focused on the SAP-related expenditures, and the second being:

“(ii) discussions with the Commission regarding improvements to the practice for the review and oversight of Information Technology and Telecommunications capital projects and a change in practice that would provide more timely opportunities for review and oversight of BC Hydro capital projects.” [Exhibit A-1, p.1]

The Commission initiated two proceedings: an inquiry to review BC Hydro's expenditures related to the adoption of the SAP platform, and the current proceeding, described as follows:

“A proceeding is established to review the regulatory oversight of British Columbia Hydro and Power Authority's (BC Hydro) capital expenditures and projects.”

On May 10, 2016, the Commission panel in the current proceeding issued Order G-63-16 [Exhibit A-2]. Appendix B set out a proposed scope comprising four issues. The first is:

“Definition of a strategy to review projects that are linked to capital strategies (for example: individual IT projects in relation to the 5 year IT&T Plan).”

Issues 2 and 3 relate to BC Hydro's 2010 Capital Project Filing Guidelines. Issue 4 relates to when BC Hydro would file a CPCN application rather than a 44.2 capital expenditure schedule.

Following submission and a procedural conference, the Commission issued Order G-174-16, approving the scope of the proceeding as set out in Appendix B of Order G-63-16, referred to above, and determining that the proceeding would re-commence after the decision regarding BC Hydro's F2017-F2019 RRA. The panel noted that a subsequent procedural conference would provide an opportunity for the parties to address the scope again.

On March 1, 2018, the Commission issued its decision regarding BC Hydro's F2017-F2019 RRA, Decision and Order G-47-18. The panel noted that several

large projects delivered during the test period were over budget and recommended that the adequacy of BC Hydro's planning and execution related to large capital projects be explored in the current proceeding. The panel states:

“The Panel finds that although overall BC Hydro projects delivered between fiscal 2012 to fiscal 2016 were comparable to budget in aggregate, there were several larger projects where BC Hydro was significantly over budget. The Panel recommends the issue of the adequacy of BC Hydro's planning and execution related to large capital projects be explored in this upcoming BC Hydro Review of the Regulatory Oversight of Capital Expenditures and Projects proceeding.” [p.iv, underline added]

Similarly, the panel in the F2017-F2019 RRA decision also states:

“The Panel acknowledges that the upcoming BC Hydro Review of the Regulatory Oversight of Capital Expenditures and Projects proceeding will provide another opportunity for the Commission and interveners to further refine their understanding of the effectiveness of BC Hydro's capital processes. The Panel recommends the issue of the adequacy of BC Hydro's planning and execution related to large capital projects be explored in this upcoming proceeding.”

On March 15, 2018, the Commission issued Order G-59-18 [Exhibit A-10], recommencing the current proceeding.

On April 3, 2018, BC Hydro filed its draft proposal responding to the items within the scope of the proceeding together with its draft Proposed Capital Filing Guidelines (Initial Proposal). [Exhibit B-3]

Following BC Hydro's response to BCUC's and interveners' clarifying and technical questions regarding the Initial Proposal and a workshop held on May 23, 2018, BC Hydro filed a revised draft of its Initial Proposal and proposed Capital Filing Guidelines (Revised Proposal) on June 13, 2018. [Exhibit B-7, B-7-1]

On June 27, 2018, the Commission held a procedural conference in the current proceeding to address the scope, outcome, record and timeline. The CEC made a proposal regarding scope that the panel described as follows:

“CEC submits that if BC Hydro's proposed Capital Filing Guidelines are to have value they must emanate from an internally efficient and effective process. It seeks, therefore, to expand the scope of the proceeding, beyond consideration of what is in the proposed guidelines, to permit a more significant and thorough review of BC Hydro's internal processes.” [Decision and Order G-126-18, p.6, Exhibit A-15]

The panel decided that the scope would remain as determined in Order G-174-16. Regarding the CEC's proposed expansion of the scope, the panel states:

“The Panel denies CEC’s proposed amendment to the scope of the Review. The Panel agrees with BCSEA that addressing how the BCUC regulates or exercises its regulatory authority over BC Hydro’s capital planning decisions and capital expenditures is a fundamentally different topic than the filing guidelines that identify what information BC Hydro will provide in the various circumstances in which the BCUC exercises regulatory authority over BC Hydro’s capital spending. This is similar to BC Hydro’s point that CEC’s suggestion is more than an addition to the scope of this proceeding and is an entirely different scope that is not related to the regulatory oversight of BC Hydro’s capital expenditures and projects.”

The panel also states:

“At this time, the Panel makes no determination on whether CEC’s proposal to permit a more significant and thorough review of BC Hydro’s internal processes to assess whether BC Hydro is acting prudently, efficiently and effectively with regard to significant capital expenditure is within the jurisdiction of the BCUC. The Panel notes BC Hydro has stated it is currently integrating its capital planning, delivery, and operations for greater efficiency, and will be including a description of its current planning and delivery processes in the next RRA. [Footnote: Exhibit B-7, p. 24.]

Further, as already pointed out by BC Hydro, the BCUC’s review of the adequacy of BC Hydro’s planning and execution of projects is properly the subject of review in its revenue requirements applications or major project applications, where it could inform the BCUC’s determinations on the reasonableness of BC Hydro’s capital expenditure or additions forecasts or the prudence of completed projects. [Footnote: *Ibid.*, p. 23.]”

On September 7, 2018, the Commission issued its Report on the SAP Expenditures Inquiry. The SAP Inquiry panel is comprised of different commissioners than is the panel in the current proceeding. With reference to the current proceeding, the SAP Inquiry panel states:

“Recommendation: BC Hydro should adhere to a clear approval/decision-making framework that, at a minimum:

- ensures that related projects are aggregated according to BC Hydro’s existing financial policies and procedures, that they are aggregated to the highest reasonable level, and that strategies with financial implications have all their costs aggregated into a program for review and approval;
- ensures that both aggregated programs and their component projects are appropriately reviewed and approved; and
- precludes breaking apart a project into component parts that fall below review threshold levels.

BC Hydro should ensure that its 2018 Capital Filing Guidelines, currently the subject of another proceeding with the BCUC, clearly meet or exceed the expectations set out above. [pp.110-111, underline added]

The SAP Inquiry Report also refers to the current proceeding in the following statement:

“The Panel notes the CEC’s recommendation that the BCUC exercise “staged oversight on all BC Hydro IT&T expenditures, if not all BC Hydro capital expenditures in a Capital Plan Requirement Application (CPRA) review process separated from the usual RRA process.” [Footnote: CEC Final Argument, p. 38].

Recommendation: BC Hydro should consider the CEC’s suggested Capital Plan Requirement Application review process as part of the BC Hydro Review of the Regulatory Oversight of Capital Expenditures and Projects proceeding currently underway with the BCUC. [pdf p.120, bold in the original]

The CEC’s suggested Capital Plan Requirement Application review process is described in the CEC’s Final Argument in the SAP Inquiry on page 38:

“220. The CEC recommends that the Commission continue to exercise staged oversight on all BC Hydro IT &T expenditures, if not all BC Hydro capital expenditures in a Capital Plan Requirement Application (“CPRA”) review process separated from the usual RRA process.” [underline added]

- 1.1 Please provide a succinct description of the CEC’s suggested Capital Plan Requirement Application review process referenced in the SAP Inquiry Report.
- 1.2 Please provide a short description of how the CEC’s evidence in the current proceeding relates to its suggested Capital Plan Requirement Application review process.
- 1.3 Is it the CEC’s intention that its suggested Capital Plan Requirement Application review process would be part of the current proceeding? If so, please provide the rationale. If not, is the CEC asking the panel in the current proceeding to recommend that the Commission establish the suggested Capital Plan Requirement Application review process?
- 1.4 In the CEC’s view, do the proposed 2018 Capital Filing Guidelines and the associated application document [Exhibit B-7], as they stand, meet or exceed the expectations set out by the panel in the SAP Inquiry Report? If not, how in the CEC’s view should the 2018 Capital Filing Guidelines be revised to do so?
- 1.5 Please list briefly the outcomes the CEC seeks within the scope of the current proceeding.

2.0 Topic: Cost of incremental information from BC Hydro
Reference: Exhibit C2-10, David Craig Evidence, para.217; Exhibit C2-11, Scott Thomson Evidence

The CEC states:

“217. Both cost savings and benefit improvements are possible, and capturing these will in all probability significantly outweigh any cost of oversight.”

- 2.1 Would the CEC agree that Mr. Thomson’s evidence supports consideration of the incremental cost to BC Hydro of providing specific incremental information, and caution about assuming that requiring BC Hydro to provide any amount of additional information to the regulator will necessarily be worthwhile.

3.0 Topic: General questions
Reference: Exhibit C2-10, David Craig Evidence

- 3.1 Please summarize the five or ten key points of the evidence.
- 3.2 Given that a central theme of the evidence is the desirability of quantifying benefits for the purpose of measuring the cost-effectiveness of spending aimed at achieving the benefits, is the CEC aware of, or proposing, a method of quantifying the incremental net financial value (to the utility and hence ratepayers) achieved by the Commission’s oversight of BC Hydro’s capital expenditures and projects?
- 3.3 Please confirm that the intention of CEC’s evidence is not that the Commission would become involved in the management of BC Hydro. Please explain how CEC’s evidence does not involve the Commission in managing BC Hydro.
- 3.4 Please explain how the CEC’s proposed expanded role for the Commission in evaluating BC Hydro’s capital expenditures and projects earlier in the capital cycle does not involve the Commission overseeing BC Hydro’s long term resource plans.
- 3.5 What is the CEC’s response to Mr. Thomson’s statement [Exhibit C2-11, p.6] that “while CEC has laid out a framework that consistently applies across the various business units to address questions of cost effectiveness, there may be areas that would be better suited to this approach than others”?
- 3.6 Much of the CEC evidence focuses on perceived deficiencies in the information received by the Commission in a BC Hydro revenue requirement application. Please comment on whether the primary solution to this problem lies within the revenue requirements application processes?

4.0 Topic: Templates

Reference: Exhibit C2-10, David Craig Evidence, Part I CEC Proposed Commission Capital Planning Oversight Regulatory Information

- 4.1 Please provide a table listing the cost-effectiveness measures in the CEC's templates, the definition of each measure, and whether the measure is currently used by BC Hydro.
- 4.2 Does the CEC see its proposed framework, with whatever adjustments result from consultation, as being situated within BC Hydro's proposed 2018 Capital Filing Guidelines (Exhibit B-7)?
- 4.3 Does the CEC agree that its proposed framework is much more detailed than the contents of BC Hydro's proposed 2018 Capital Filing Guidelines?
- 4.4 Can the CEC express key points of its evidence at a level of detail corresponding to the level of detail in the latest proposed Capital Filing Guidelines?

5.0 Topic: Thomson recommendations?

Reference: Exhibit C2-11, Scott Thomson Evidence

Mr. Thomson says he has reviewed BC Hydro's Capital Expenditures & Projects Guidelines that are the subject of this proceeding. He states:

"In addition, I have familiarized myself with BC Hydro's most recent RRA filing (2017-2019), with emphasis on Chapter 6 relating to Capital Expenditures and Additions, and the related Decision of the BCUC to gain a better understanding of the capital planning and management processes and resources that BC Hydro employs to plan and manage the execution of capital spending. I have also familiarized myself with the most recent 10 Year Capital Plan document."

- 5.1 Based on the materials he has reviewed, what recommendations does Mr. Thomson have for improvement of the proposed 2018 Capital Filing Guidelines?