

REQUESTOR NAME: **CLEAN ENERGY ASSOCIATION OF B.C. (CEABC)**

INFORMATION REQUEST ROUND NO: **1**

TO: **COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF B.C. (CEC)**

DATE: November 19, 2018

PROJECT NO: 3698877

APPLICATION NAME: **BC HYDRO REVIEW of REGULATORY OVERSIGHT of CAPITAL EXPENDITURES AND PROJECTS**

1.0 Reference: Exhibit C3-11, Evidence of Scott A. Thomson

In the response to Question #3, the reply included the qualification “*Subject to any jurisdictional exclusions in the empowering legislation or Special Directions to the BCUC,...*”

And in Question #4, the question was stated as “*not from a legal perspective but from a business perspective...*”

- 1.1 Are you aware of any legal restrictions or exclusions that would limit the Commission from asking for detailed quantitative information regarding the cost-effectiveness of BC Hydro’s capital expenditures, along the lines of that proposed by CEC?
- 1.2 In your previous experience in regulated utilities, was it normal practice for the regulator to focus attention on the cost-effectiveness of your utility’s capital spending?
- 1.3 In your previous utility experience (including both investor-owned and crown-owned), did any of the utilities utilize some kind of economic screening model to estimate the return on investment or the cost-effectiveness of potential capital projects? If not, why not? If so, which utilities utilized such models, and please provide a description of the models’ inputs, analysis and outputs, and please describe what types of capital projects would be evaluated using that model and what types would not.
- 1.4 In your previous experience, was there a difference between an investor-owned utility and a crown utility in terms of its choice to use an economic screening model or not? If so, can you explain why that difference occurred?
- 1.5 In your previous experience, was it customary for the regulator to prescribe a standardized format and specified details for the cost-effectiveness information provided by your utility, or did the regulator simply accept the information in the formats and detail what the utility used for its internal evaluations?

2.0 Reference: Exhibit C3-11, Evidence of Scott A. Thomson

Question #5 asks if it is reasonable for the Commission “*to focus on understanding the drivers and strategies of BC Hydro’s capital expenditures and investments,...*”

- 2.1 In your previous experience with respect to regulated utilities, was it normal practice for the regulator to focus attention on understanding the utility’s drivers and strategies? If so, in what regulatory proceedings would this focus take place, and how often would those occur?
- 2.2 In your previous experience with respect to regulated utilities, did the regulators ever attempt to assess the utility’s strategies, as to whether they were either appropriate or cost-effective? If so, please provide some detail as to the specific strategies and how the regulator attempted to assess them.

3.0 **Reference: Exhibit C3-11, Evidence of Scott A. Thomson**

The response to Question #6 indicated that you, as a utility executive, could find it “not unreasonable” for the Commission to provide a prescribed framework for gathering of cost and benefit information, “*If the Commission saw value in having objective, quantitative information available to it to fulfil its regulatory oversight requirements.*”

- 3.1 In your previous experience with respect to regulated utilities, did the regulators ever attempt to provide such a prescribed framework? If so, what was the response of the utility?
- 3.2 With a view to providing the Commission with whatever information it requires, while at the same time avoiding unreasonable cost or resource impacts on BC Hydro, do you think a reasonable way to proceed would be to initiate a workshop forum, in which BC Hydro could demonstrate the methods and formats it already uses; the Commission and/or interveners could communicate what elements, if any, they found confusing or inadequate; and together they could arrive at an information set and format that would meet everyone’s needs?

4.0 **Reference: Exhibit C3-11, Evidence of Scott A. Thomson**

Question #7 asked whether you agreed that the following 4 specific categories can be key drivers of capital expenditures for utilities, namely:

- a. Load Growth;
- b. System Sustainment Condition;
- c. External Risk Exposure; and
- d. Stakeholder Concern Standards

Your response was to agree, but you also added, “*Crown corporations such as BC Hydro often have to address broader stakeholder interests than investor-owned utilities and are subject to shifting political drivers and directives as well over time.*”

- 4.1 From your crown utility experience, can you please enumerate some of these other “broader stakeholder interests” that might also become key drivers for the capital spending of a utility such as BC Hydro?
- 4.2 Given the government’s priorities for British Columbia in 2018, would some of these additional drivers likely include such priorities as:
 - Climate Action – in the form of electrification aimed at reducing greenhouse gas emissions;
 - Assisting industrial development around the province;
 - Assisting First Nations development around the province; or
 - Maintaining a world class power development industry in the province?
- 4.3 Based on your crown utility experience, would these additional drivers be accommodated in the capital program even if they conflicted with the overall objective of cost-effectiveness? If so, in your experience, how would the cost-effectiveness objective be modified in order to accommodate the additional priorities?

5.0 **Reference: Exhibit C3-10, CEC Evidence by David W. Craig**

Paragraph 2 indicates that CEC “*submits that the role of the BCUC with respect to capital expenditures... is to ensure that they are cost-effectively deployed and provide full value for ratepayers.*”

Paragraph 11 asserts that cost-effectiveness is the defining principle for the Commissions oversight of BC Hydro’s capital expenditures, and that, “*Both cost-effectiveness evaluation and continuous improvement are well-understood business practices...*”

- 5.1 Since CEC asserts that cost-effectiveness is a “*well understood business practice*,” can CEC please provide a succinct definition of exactly what cost-effectiveness means with respect to capital projects in each of the following 7 categories of BC Hydro’s Generation capital spending:
1. Generation capital – Growth/Supply
 2. Generation capital – Life Extension
 3. Generation capital – Reliability Performance/Sustainment Management
 4. Generation capital – Natural Risk Exposure Management
 5. Generation capital – Security risk Exposure Management
 6. Generation capital – Stakeholder Concern Management
 7. Generation capital – Surplus Capability Value
- 5.2 Considering the other categories of BC Hydro capital spending, such as Transmission and Distribution capital, Properties capital, Fleets capital, or IT and Telecommunications capital, are the definitions of cost-effectiveness exactly the same for the other categories as for the Generation category? Please provide details wherever the definition of cost-effectiveness is different from the definitions for Generation capital given above, and an explanation of why that difference is necessary.
- 5.3 Do any of the definitions of cost-effectiveness given in 5.1 or 5.2 incorporate a forecast of revenues from the potential capital projects, for comparison with other competing capital investments? Please describe which ones include revenue forecasts, how those revenues are determined, and how those revenues are incorporated into the cost-effectiveness definitions.
- 5.4 Has CEC considered that BC Hydro may also have other objectives for its capital expenditures, besides pure cost-effectiveness, such as the government’s instruction to pursue electrification as a means to reduce greenhouse gases, or to use the electricity system to facilitate industrial development, or First Nations development around the province? How does CEC recommend balancing the competing priorities if some of these other objectives are less cost effective? How do CEC’s suggested templates accommodate such competing priorities?

6.0 Reference: Exhibit C3-10, CEC Evidence by David W. Craig

In paragraphs 24 and 25, CEC asserts that BC Hydro should “*avoid planning for capital... prior to need or customer demand...*” and that “*ratepayers have been disadvantaged through early acquisition of capital...*”

- 6.1 Does CEC acknowledge that BC Hydro might have occasions where it should build new generation or transmission in order to encourage or facilitate new loads? E.g. if BC Hydro is seeking to follow the Provincial Government’s direction to encourage new industrial development or to electrify as a means to meet the province’s GHG reduction goals.
- 6.2 Does CEC acknowledge that over the 20 years from 2008 to 2027, BC Hydro will have spent over \$50 billion on capital assets and that, of that amount, only the \$10.7 billion committed for Site C relied on the load forecast for its justification?
- 6.3 Many of BC Hydro’s Transmission and Distribution projects are categorized as “*Growth*” projects, and yet they do not cite the load forecast in their justification. How does CEC propose to deal with this type of project? How will such a project’s cost-effectiveness be defined and measured?

7.0 Reference: Exhibit C3-10, CEC Evidence by David W. Craig

Regarding BC Hydro’s Strategic Objectives for Capital Planning, CEC states in paragraph 124, “*...identified ‘Strategic Objectives including Priorities, Performance Objective and Targets’... may be*

expected to provide significant direction as to what capital would be required over the next several decades, where it might be most valuably deployed, and what benefits are being sought from such deployment.”

And in paragraph 125, “... *that the details of such capital planning objectives and strategies, however, are largely unrecorded in the RRA... and have in any case not been comprehensively reviewed by either the Commission or interveners in the RRA proceeding.*”

- 7.1 Is it CEC’s assertion that these strategic objectives properly should be reviewed by the Commission and the interveners in the RRA proceeding, or in some other proceeding?
- 7.2 In CEC’s view, under what provision of the Utilities Commission Act, or other enabling legislation, would such a review by the Commission be authorized or mandated?

8.0 Reference: Exhibit C3-10, CEC Evidence by David W. Craig

In commenting on BC Hydro’s Proposed Guidelines for Information on Capital Expenditures, CEC states in paragraph 210 that, “*The requirement for driver information is clear but does not necessarily result in information on the driver systems and the connection of the drivers to the need for capital being supplied.*”

By way of example, in paragraph 213, CEC states, “... *detail about a Fort St. John and Taylor electrical supply project... is wholly inadequate to determine if the project is justified by the project drivers.*”

- 8.1 Is it CEC’s view that the connections between the drivers and capital planning objectives and strategies should be comprehensively reviewed by the Commission and interveners and that BC Hydro should provide the additional information to enable that review?
- 8.2 Is it also CEC’s view that Commission oversight should extend to validating the justifications for individual projects based on the cited drivers?
- 8.3 In CEC’s view, under what provision of the Utilities Commission Act, or other enabling legislation, would such a review by the Commission be authorized or mandated?

9.0 Reference: Exhibit C3-10, CEC Evidence by David W. Craig

In paragraph 234, CEC appears to summarize its view of the proper oversight of strategies and their connections to the capital drivers, “*The Commission should be able to clearly identify BC Hydro’s overarching strategies, how they relate to the business drivers, and be able to determine whether or not they are cost-effective solutions to the issues facing the utility. The Commission should also be able to determine which strategies are the most cost effective, and which strategies are being utilized more or less over time. For instance the Commission should understand how much of the growth-driven capital is being addressed through new additions versus DSM, life extension options, system upgrades, or other options.*”

- 9.1 Does CEC acknowledge that this is a considerable extension of the Commission’s current oversight which may require a major increase in the work load of the Commission, not to mention the work load of BC Hydro staff to provide the needed information?
- 9.2 In CEC’s view, under what provision of the Utilities Commission Act, or other enabling legislation, would such an increase in the oversight of the Commission be authorized or mandated?

10.0 **Reference: Exhibit C3-10, CEC Evidence by David W. Craig**

In summarizing its conclusions re Post Implementation Reports, CEC states, “*post-implementation reporting will need continuing follow-up in order to track through on capturing the benefits from given capital expenditures... and therefore ensuring the cost-effectiveness of the capital... is maximized.*”

10.1 Has CEC considered that in many cases the ‘*benefits*’ of capital projects are based on hypothetical avoided costs, which will be impossible to verify or validate if the project is undertaken? How does CEC propose to handle such cases?