

OWEN BIRD

LAW CORPORATION

D Barry Kirkham, QC⁺
Duncan J Manson⁺
Daniel W Burnett, QC⁺
Ronald G Paton⁺
Karen S Thompson⁺
Laura A Wright
James H McBeath⁺
Edith A Ryan⁺
Daniel H Coles⁺
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Robin C Macfarlane⁺
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Paul A Brackstone^{**}
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Sarah M Pélouquin^{**}

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Christopher P Weafer⁺
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Michael F Robson⁺
Scott H Stephens⁺
George J Roper⁺
Katharina R Spotzl
Steffi M Boyce

Carl J Pines, Associate Counsel⁺
Rose-Mary L Basham, QC, Associate Counsel⁺
Jennifer M Williams, Associate Counsel⁺
Hon Walter S Owen, QC, QC, LL.D (1981)
John I Bird, QC (2005)

⁺ Law Corporation
^{*} Also of the Yukon Bar
^{**} Also of the Ontario Bar
^{***} Also of the Washington Bar

PO Box 49130
Three Bentall Centre
2900-595 Burrard Street
Vancouver, BC
Canada V7X 1J5

Telephone 604 688-0401
Fax 604 688-2827
Website www.owenbird.com
Direct Line: 604 691-7557
Direct Fax: 604 632-4482
E-mail: cweafer@owenbird.com
Our File: 23841/0146

December 10, 2018

VIA ELECTRONIC MAIL

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

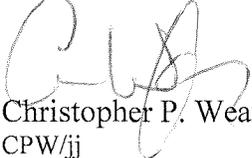
Re: **British Columbia Hydro and Power Authority Review of the Regulatory Oversight of Capital Expenditures and Projects ~ Project 3698877**

We are counsel for the Commercial Energy Consumers Association of British Columbia (the "CEC") in this matter.

Enclosed please find the Information Request Responses in response to the Information Requests of BC Sustainable Energy Association and Sierra Club BC – Exhibit C1-7.

Yours truly,

OWEN BIRD LAW CORPORATION


Christopher P. Weafer
CPW/jj
cc: CEC
cc: BC Hydro
cc: Interveners

**COMMERCIAL ENERGY CONSUMERS
ASSOCIATION OF BRITISH COLUMBIA**

**Responses to BC Sustainable Energy Association and Sierra Club BC to
Information Requests on Evidence**

Prepared by Mr. David W. Craig

**British Columbia Hydro and Power Authority Review of the Regulatory Oversight
of Capital Expenditures and Projects – Project No. 3698877**

December 10, 2018

Commercial Energy Consumers Association of British Columbia

**British Columbia Hydro and Power Authority Review of the Regulatory Oversight of
Capital Expenditures and Projects – Project No. 3698877**

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**COMMERCIAL ENERGY CONSUMERS ASSOCIATION
OF BRITISH COLUMBIA**

**Responses to BC Sustainable Energy Association and Sierra Club BC to
Information Requests on Evidence**

**British Columbia Hydro and Power Authority Review of the Regulatory Oversight
of Capital Expenditures and Projects – Project No. 3698877**

December 10, 2018

**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], recommending 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.

ANSWER

The CEC’s suggestion in the SAP inquiry for a CPRA process directly matches in this proceeding the CEC’s suggestion that the Annual Report to the Commission be used for the same purpose.

The CEC is recommending to the Commission a staged process of the ongoing development and upgrading of the Commission’s oversight information to strengthen the Commission’s understanding of the business in order to ensure that it has useful context information to support all of its regulatory decision making and approval roles.

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.

ANSWER

The CEC’s evidence in this proceeding goes to providing the starting point from which a discussion of the appropriate cost-effectiveness information and calculations can be agreed upon as applicable to understanding any given capital plan.

This will enable the Commission to ask BC Hydro for information about the cost-effectiveness of its capital expenditures and investments.

Such information can then become the appropriate context for the Commission’s approval processes, such as approval of capital expenditures and approval of cost recovery for capital expenditures and investments from ratepayers in the BC Hydro revenue requirements.

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?*

ANSWER

The CEC is not intending or suggesting that the BC Hydro's Capital Plan Requirements be reviewed in this proceeding and there is no information on the record in this proceeding from which such a review could take place.

The CEC in this proceeding is recommending that the Commission establish an annual process at about the time BC Hydro files its Annual Report to the Commission for BC Hydro to file capital plan information for the Commission's annual review so that the Commission can be adequately informed about the cost-effectiveness of BC Hydro's capital planning for use in its approval processes.

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?*

ANSWER

In the CEC's view the Panel for the SAP Inquiry was not tasked with and did not set out expectations for the Capital Filing Guidelines.

In the CEC's view the SAP Inquiry Panel made some important comments setting expectations for some specific issues it felt needed to be addressed in the Capital Filing Guideline as follows;

(a) Strategic decisions:

BC Hydro should operate under the expectation that many if not all strategic decisions have a financial impact, and that all decisions with financial implications must be disclosed/reviewed/approved in accordance with the regulatory requirements in place at the time of the decision.

(b) Clear delineation of approvals required:

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.

Section 7 of the Capital Filing Guidelines appears to deal with BC Hydro's approach to strategic decisions. The approach is characterized as adding an identifier link to strategies and plans on a list to be contained in an appendix.

BC Hydro proposes to provide in revenue requirements application:

- (i) In a column in the list of projects and programs with capital expenditures or additions over a materiality limit (i.e., Appendix I to the Fiscal 2017 - Fiscal 2019 RRA), BC Hydro will indicate the particular strategy, plan, or study to which a project is linked; and
- (ii) In a new Appendix, summary descriptions of the issues and solutions addressed in any of the identified strategies, plans, and studies.

As necessary, BC Hydro will continue to provide any applicable final and approved strategies, plans, and studies in CPCN or expenditure schedule applications.

In the CEC's view this does not even begin to address the Commission's and or the CEC's concerns about BC Hydro's approach to treating major strategies as having serious financial implications and ensuring that the related projects are aggregated for review and approval.

It is for this and a number of other reasons that the CEC has proposed potential alternative information requirements for Commission oversight information. There is a risk of more issues like those found in the SAP inquiry continuing to evade Commission oversight simply by the application of project definition and thresholds so that the Commission has little ability to understand whether or not BC Hydro's capital expenditures and investments are sufficiently cost-effective.

The SAP Inquiry Report provides a number of recommendations in Section 9 as follows:

9.1.1 Recommendation: BC Hydro should foster and adhere to a corporate culture whereby working with the BCUC is a necessary and important element in achieving the best possible decisions.

9.1.2 Recommendation: BC Hydro should approach decisions regarding information disclosure to the BCUC from a perspective that is informed by "if in doubt, provide the information."

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.

9.1.3 Recommendation: BC Hydro should actively and consistently keep Regulatory Affairs informed of actions/decisions that may have regulatory implications.

9.1.4 Recommendation: BC Hydro should avoid taking the narrowest possible “legal defense” view of its regulatory relationship with the BCUC.

9.2.1 Recommendation: BC Hydro should operate under the expectation that many if not all strategic decisions have a financial impact, and that all decisions with financial implications must be disclosed/reviewed/approved in accordance with the regulatory requirements in place at the time of the decision.

9.2.2 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.

9.2.3 Recommendation: BC Hydro should ensure that its approvals/decision framework:

- provides clarity on the distinction between formal approvals/decisions and information briefings;
- ensures complete and accurate documentation of all formal approvals/decisions;
- communicates the approvals/decisions to all parties that need to know; and
- ensures a shared and common understanding of the specific nature (including limitations and follow-up obligations) of each approval granted.

9.2.4 Recommendation: BC Hydro should ensure that EAR/Business Case submissions contain a thorough and meaningful evaluation of alternatives when considering different courses of action.

9.3.1 Recommendation: BC Hydro should ensure that project approval requests (whether embedded in the EAR and/or Business Case) include a clear articulation of expected benefits, with observable outcomes and specified time frames.

9.3.2 Recommendation: BC Hydro should ensure that benefits derived from projects are tracked and reported, and are also assessed to evaluate the extent to which expected outcomes were achieved and the contributing factors thereto.

From the CEC's perspective BC Hydro's Capital Filing Guidelines are inadequately responsive to the learning available from the SAP Inquiry.

The CEC believes that BC Hydro needs to engage with the Commission on an oversight information improvement project with a continuous improvement process at the core of the project.

1.5 Please list briefly the outcomes the CEC seeks within the scope of the current proceeding.

ANSWER

The CEC is seeking the following outcome within the scope of this current proceeding;

The Commission assess that its oversight information regarding BC Hydro's capital expenditures and investments is less than adequate for deciding whether or not BC Hydro's capital expenditures and investments are cost-effective.

The Commission take the opportunity as an outcome of this proceeding to establish a staged process for coming to agreement with BC Hydro and appropriate stakeholders. The agreement should establish the kinds of Commission oversight information requirements that would enable the Commission to progressively improve its assessment of the cost-effectiveness of BC Hydro's capital expenditures and investments.

That the Commission establish a regulatory framework (with the BC Hydro Annual Report to the Commission as a potential option) within which the proposed improvements in Commission oversight information be made available and reviewed as part of a continuous improvement process.

The Commission start the proposed staged process with a request to BC Hydro to provide the 'cost and benefit' metrics it uses to determine whether or not all of its capital expenditures and investments are cost-effective. That the Commission seek between BC Hydro's metrics and those proposed by the CEC sufficient common ground to begin implementing provision of information to the Commission on BC Hydro's cost-effectiveness.

That the Commission in establishing their process for improving their oversight information make an ongoing assessment of the potential value attributable to making the proposed improvements.

That the Commission and Interveners ensure that the pursuit of improved Commission oversight information remain on clear regulatory jurisdiction grounds

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.

ANSWER

The CEC would agree that Mr. Thompson’s evidence supports consideration of the incremental cost to BC Hydro of providing specific incremental information.

The CEC does not propose that making additional information available to the regulator should be done when it is not worthwhile doing so.

The CEC, however, expects that the value of additional information will significantly out weight the costs and that it will be imperative to have a process for determining the additional value expected and the CEC cautions against assumptions that information may not be of value.

The CEC’s proposals are for greater quantitative information on benefits for BC Hydro drivers, strategies, plans and projects and would expect that the same principal would apply to obtaining Commission oversight information.

The CEC however, would points out that the Commission’s mandate is to inform its self to the extent it believes it may require. So, the Commission’s perceived needs would be of primary importance.

The CEC’s recommendation for the Commission to stage its improvement of its oversight information requirements should enable the Commission to assess value on an ongoing basis. The Commission can discard information and processes from which it expects little value while continuing to work on additional stages to find high value oversight information through continuous improvement.

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.

ANSWER

The CEC believes that the greatest benefit to come from improving the Commission's oversight information will come from the following 5 key areas in which the CEC is recommending be developed through a staged Commission led process:

1. Cost-effectiveness Information;
2. Driver Information;
3. Strategy Information;
4. Capital Plan Information; and
5. Accountability Information.

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?*

ANSWER

Yes. The CEC would definitely propose to quantify net incremental financial and cost-effectiveness value to (1) the utility (2) to the regulator (3) to the ratepayers and (4) to the public interest (5) BC Hydro's shareholder/owner the Province of BC, as expected or anticipated to be developed and or contributed to from Commission oversight of BC Hydro's capital expenditures and projects.

The CEC uses this type of quantitative analysis to evaluate itself with respect to its own contribution to providing additional value as an intervener in regulatory processes before the Commission. The CEC continues to establish from time to time that its role in the regulatory processes provides extensive value.

It is from this perspective that the CEC has identified that the greatest value opportunities are at the front end of the process dealing with drivers, strategies, and plans. The CEC has also noted that one of the greatest value areas available is to be found in the area of policy as it operates between the government and BC Hydro through assessment of its impacts on various values. Providing information from the Commission's regulatory oversight process to BC Hydro and the government where it is seen as potentially having valuable to the various stakeholders can provide substantial value.

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.*

ANSWER

Confirmed. The CEC has been careful to stick strictly to Commission oversight information requirements explicitly to benefit its own approval processes. The CEC has explicitly avoided any Commission process which would seek to supplant itself into a BC Hydro management decision process.

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.*

ANSWER

The CEC notes that BC Hydro as part of its planning process currently uses its 10 years capital plan as context for making decisions about planning for strategies to meet driver requirements and projects to fulfill the role of delivering the benefits. The CEC notes that the 10 years planning information is already material which is supplied to the Commission and is reviewed by the Commission and interveners in the BC Hydro RRA processes for instance.

The CEC notes that BC Hydro's long-term resource planning involves a 20 years horizon and may involve 30 years for transmission. The BC Hydro long-term plans are developed as Integrated Resource Plans IRPs which are approved by the government of BC.

The Commission's role with respect to IRPs is to consider them as part of some of its approval processes. Consequently, the Commission must develop a good understand of long-term planning information for its own purposes, while not being directly involved at all in the development of the IRP not making decisions about approval of an IRP.

The CEC therefore finds that there is a clear distinction separating the long-term resource planning (IRP) and the Commission's direct interests. The CEC therefore concludes that the CEC's proposed Commission oversight information relates well and is needed for the Commission's own approval processes and does not engage the Commission in the long-term resource planning or IRP.

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"?*

ANSWER

The CEC agrees with Mr. Thomson's assessment and has made clear that it does not consider its proposals as a definitive end point but rather the beginning of a process for the Commission to receive improved oversight information.

The CEC takes Mr. Thompson's comments as indicating that it would be appropriate to prioritize the more valuable areas of application and confine to lower priority areas of application which would be expected to be less valuable to press for application.

The CEC treats Mr. Thompson's advice here as constructive and appropriate.

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?*

ANSWER

The CEC does not find that the Revenue Requirements process would be an appropriate opportunity to seek to improve the Commission's oversight information although it is one possible avenue open to Interveners.

For instance, the CEC could explore the issues it has with a string of many information requests and attempt to piece together an appropriate information set. However, in the CEC's experience this would likely be a much less productive approach than a cooperative workshop type of process led by the Commission to the specific end of improving Commission oversight information.

The principle purpose of a revenue requirements hearing is to establish appropriate rates for BC Hydro's rate classes. The information requests in the RRA process should likely be addressed more to this end rather than to the design of better information for Commission oversight.

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.*

ANSWER

The CEC is asking for a process enabling coordination and consultation with BC Hydro, which would require to answer this question with regard to what BC Hydro currently uses.

The CEC templates calculate the incremental cost of an initiative to implement a strategy to meet a need identified by the driver information and divide this into the particular type of benefit associated with the relevant driver information. This is the standard definition of cost-effectiveness being sought through the templates.

The CEC has proposed that development of specific cost effectiveness metrics should be done in a Commission led staged process for upgrading the Commission's oversight information. In this

process the CEC believes that it would be valuable for BC Hydro to put forward the cost-effectiveness metrics it already has in place and uses as part of its decision making. The CEC then believes that common ground identification of appropriate metrics could take place and become part of the staged process for upgrading the Commission's oversight information.

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)?*

ANSWER

BC Hydro is in the middle of preparing its next Revenue Requirement Application and will likely not be able to respond to the significant changes to cost-effectiveness information requirements as well as complete its usual RRA filing.

BC Hydro has sought and been granted a delay for filing its rebuttal evidence which will be after its Revenue Requirements Application is ready for filing and after the BC Government's report on its review of BC Hydro. So, there will be a practical need to have the rate setting process proceed.

This is in part why the CEC believes that the improvement of Commission oversight information be established in an alternative Annual Reporting process with its own dynamic.

Therefore, the CEC recommends that this Capital Filing Guidelines process be wrapped up with the establishment of the next stage improvement process.

The CEC will in final argument recommend some changes to BC Hydro's Capital Filing Guidelines to provide the linkage to a proposed improvement process.

Without such an architecture for the process the risk is that changes to the BC Hydro Capital Filing Guidelines would be like those proposed by BC Hydro, a modest tweaking of the straw position.

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?*

ANSWER

The CEC's view is that BC Hydro's filing in Exhibit B-7 certainly has a number of details and represents a complex of criteria which BC Hydro uses.

The CEC's proposals certainly represent a complex of potential approaches to improving the Commission's oversight information with respect to assessing the cost-effectiveness of BC Hydro's capital expenditures and investments.

The CEC's material is quite different from BC Hydro's material because it primarily seeks to add value to the information BC Hydro currently provides to the Commission.

The CEC believes that both sets of information once more firmly established could migrate into one Capital Filing Guideline in the future.

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?*

ANSWER

The CEC has the following areas in which it would recommend the Capital Filing Guidelines filing from BC Hydro could be upgraded to incorporate the CEC's proposed framework.

- 1) A chapter section could be added between chapter sections 2 & 3 which would elaborate on the Nature of the Benefits Related to BC Hydro's Capital Expenditures.
 - a) This section could start out with BC Hydro providing by group its understanding of the benefits of the capital expenditures it makes.
 - b) The section could contain a separate discussion for each group's capital expenditures and the nature of the issues the capital expenditures can address.
 - c) The section can then also include the metrics available and appropriate for assessing the benefits and relating them to the capital expenditures involved.
- 2) A chapter section could be added between chapter sections 6 & 7 which would elaborate on Clarity About What Constitutes Significant Decisions Regarding Capital Investments.
 - a) This section could contain information about the significance of the divers for capital expenditures and their validity.
 - b) The section could contain a separate discussion about the importance of strategies in regard to capital expenditures as key financial decisions because of the impact on large amounts of capital expenditures and as importantly large amounts of benefits versus alternatives.
 - c) The section could also contain a discussion on the nature of performance assessment of BC Hydro's capital planning, the cost-effectiveness of those plans and include the metrics BC Hydro could use to determine the cost effectiveness of its capital plans.
- 3) A chapter subsection could be added in chapter section 8, Compliance Reporting which would elaborate on the Continuous Improvement of the Oversight Information Available to the Commission.
 - a) This subsection could start with BC Hydro asserting its commitment to continuous improvement of the Commission's oversight information and its willingness to work with the Commission in a staged process to define and make the

improvements that the Commission expects would be valuable to the Commission in its approval decision roles.

- b) BC Hydro's acceptance of an invitation to work with a Commission led process or task group to help the Commission specify the information requirements that would be most helpful.
 - c) A schedule of stages and work with the Commission on improvements to the Commission's oversight information.
 - d) Specific definition of ongoing compliance filing of information on an annual basis at the same time as the Annual Report to the Commission to improve the repository of information the Commission can use to understand the BC Hydro business to support its approval decision making responsibilities.
- 4) A chapter Section could be added after chapter 9 which would elaborate on the Review of Capital Expenditures in Process or Completed Which May Identify Potential Prudence Issues
- a) Project completion report filings for major projects to account for the capital expenditure responsibilities and commitments.
 - b) Follow up reports on capital plans and projects to evaluate the ongoing capture and realization of the benefits sought for the plans and projects.
 - c) Internal group reports assessing lessons from the recent capital expenditures and potential improvements for future capital expenditures.
 - d) Internal audit reports on aspects of capital expenditure and investment management that could be improved and a sample analysis of business case existence and quality.

The CEC believes that some form of such improvements to the guidelines could result in more effective Commission oversight information being available for the Commission's approval roles under the UCA.

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?

ANSWER

As discussed with legal counsel to BCSEA, this question would require significant time and effort to respond to and is beyond the scope of Mr. Thomson’s retainer. We understand BCSEA is accepting that position.