BRITISH COLUMBIA UTILITIES COMMISSION

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
F2020 TO F2021 REVENUE REQUIREMENTS APPLICATION – PROJECT NO. 1598990

INFORMATION REQUEST NO. 1 TO BC HYDRO FROM MoveUP

TOPIC: CHAPTER 5: OPERATING COSTS

1.0 Labour Costs – Public Sector Employers Council

Reference: Exhibit B-1, Application, page 5-22:

> ***5.5.2.2 The Forecast Base Operating Cost Increase is Primarily Driven by Non-Controllable Factors***
>
> As depicted in the figure above, three factors are driving most of BC Hydro's forecast base operating cost increases. Two of these factors – storm restoration and the employer health tax – are non-discretionary and are beyond BC Hydro's control. The third – Standard Labour Rate increases – is tied to the bargaining mandate for union staff provided to BC Hydro by the Public Sector Employers Council. BC Hydro considers management and professional compensation increases, which are essentially cost of living increases, to be a priority akin to non-controllable costs given how BC Hydro's employee compensation compares to median market. BC Hydro has had limited ability to increase management and professional salaries since 2012, due to the Public Sector Employers Council prior salary freeze policy.

And Reference: Exhibit B-1, Application, page 5-23:

	Labour Costs
Salary Increases	The Public Sector Employers Council provides all provincial public sector employers a common bargaining mandate for negotiating union collective agreements. It specifies the term of the agreement and general wage increases that employers can provide. The collective agreements at BC Hydro expire March 31, 2019 and the Public Sector Employers Council bargaining mandate specifies a three-year term (fiscal 2020 to fiscal 2022) with a 2.0 per cent general wage increase each year. The cost increase for this test period includes a 2.0 per cent general wage increase for union employees and a 2.5 per cent general wage increase for Management and Professional employees. Since 2012, due to the Public Sector Employers Council salary freeze policy, salary increases for Management and Professional employees have been limited and below the amount provided to unionized employees over the same period.

1.1 Please file a copy of the *Public Sector Employers Act* (PSEA).

1.2 Please confirm that BC Hydro is a "public sector employer" as defined in section 1 of the PSEA.

1.3 Please explain the purposes of the PSEA, and in particular the purposes that are relevant to provincial Crown corporations like BC Hydro.

1.4 Please describe the functions and role of the Public Sector Employers Council (PSEC) in relation to compensation levels for unionized and exempt employees of public sector employers.

1.5 Please describe the dynamics under which compensation settlement patterns are developed and pursued in collective bargaining by public sector employers under the auspices of the PSEC.

1.6 Please explain the contents of the table cell from page 5-23 reproduced above in the context of these institutional arrangements.

TOPIC: CHAPTER 11 AND APPENDIX FF: PERFORMANCE-BASED RATEMAKING

2.0 Ongoing Concurrent Proceeding: British Columbia Hydro and Power Authority - Review of the Regulatory Oversight of Capital Expenditures and Projects ~ Project No. 1598877

2.1 In BC Hydro's view, what are the potential implications of the ongoing Commission Review of Regulatory Oversight of the Authority's Capital Expenditures and Projects upon any analysis of the appropriateness or format of Performance Based Regulation of Hydro in relation to capital?

2.2 To what extent may a consideration of the appropriateness or format of a potential BC Hydro PBR with respect to capital programs and expenditures be undermined by the incomplete status of that Review?

3.0 PBR – Implications of Government Role in BC Hydro Regulatory Issues

Reference: Exhibit B-1 Application page 11-2:

Figure 11-1 Regulator and Utility Responsibilities under Cost of Service Regulation and PBR

	Regulator	Utility
Cost of Service Regulation	Acquire information to evaluate prudency of expenditures	Provide information so that prudency can be evaluated
Performance Based Regulation	Create a framework and resist second guessing the utility's decisions	Assume greater risk in exchange for greater autonomy from detailed regulatory review

As Dr. Weisman explains, aligning these roles and responsibilities is critical to maintaining the distinction between cost of service regulation and PBR:

> "It follows that if the firm is uncertain as to whether regulatory commitments will be honored, there may be little practical difference between PBR and [cost of service regulation]. In this manner a weak regulatory commitment undermines the superior incentive properties of PBR." [390]

And reference: Exhibit B-1, Application, Table 11-4, page 11-64

3.1 What is the impact upon the ability of the Commission to ensure that "regulatory commitments will be honoured" of the powers of the government to over-ride the authority and discretion of the Commission by way of Directions made pursuant to section 3 of the *Utilities Commission Act*, Directives made pursuant to section 35 of the *Hydro and Power Authority Act*, and by way of legislation, and the extensive history of provincial governments exercising those powers?

3.2 What are the implications of these limits to the ability of the Commission to ensure that "regulatory commitments will be honoured" upon the appropriateness and efficacy of PBR for the Authority?

3.3 To what extent do these powers of government, as well as its powers as the Hydro's "shareholder", potentially limit the "autonomy" of the utility that is referenced throughout Chapter 11 of the Application?

3.4 What are the implications of these limits to Hydro's autonomy for the appropriateness and efficacy of PBR for the Authority?

3.5 In BC Hydro's opinion, what would be the range of potential impacts upon itself, and the efficacy and coherence of its PBR regime generally, in the event of government intervention through those powers with respect to the Hydro's rates, tariffs, return on equity, policies, programs, objectives, projects, capital expenditures or other matters during the PBR period?

3.6 In BC Hydro's opinion, would the adoption of a PBR regime eliminate the political sensitivity of BC Hydro rates and services and the incentives for government to exercise its powers to intervene in this fashion from time to time?

3.7 In BC Hydro's opinion, to what extent should the Commission take account of BC Hydro's actual operating environment, including these governmental powers and history, when considering the appropriateness and efficacy of PBR for the Hydro?

4.0 PBR - Cost of Energy and Demand Side Management

Reference: Exhibit B-1, Application, page 11-46:

> **11.5.2 Cost of Energy**
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> BC Hydro's Cost of Energy are largely uncontrollable and we expect that it may be appropriate to "carve out" the cost of energy from the PBR formula.

And reference Exhibit B-1, Application, Appendix C, section 4.2.2:

> The cost of energy procured from Independent Power Producers is now one of BC Hydro's biggest cost drivers and these costs will be recovered from ratepayers. Though BC Hydro has not conducted competitive calls for power since 2011, it is projected to have an energy surplus into the 2030s.

4.1 In BC Hydro's opinion, what is the impact of its energy surplus, including its over-supply of take-or-pay energy procured from Independent Power Producers that is priced above its market value, upon the appropriateness of including its Cost of Energy within a Hydro PBR regime?

4.2 To what extent would carving out the Cost of Energy from a PBR framework for the Authority transform BC Hydro, for core customer rate-setting purposes, into the equivalent of a distribution utility delivering the energy commodity to ratepayers on a flow-through cost-recovery basis, akin to FortisBC Energy Inc.? What implications could this have?

4.3 Please confirm that an objective of DSM is to reduce the consumption of energy by utility ratepayers, and thereby reduce the utility's total cost of energy.

4.3.1 In BC Hydro's opinion, would the inclusion of DSM within a PBR regime together with the "carving out" of the Cost of Energy tend to incent a vertically-integrated electric utility toward preferring the cost of acquiring incremental energy over the cost of DSM expenditures aimed at reducing load?