

BRITISH COLUMBIA UTILITIES COMMISSION

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY – REVIEW OF THE REGULATORY
OVERSIGHT OF CAPITAL EXPENDITURES AND PROJECTS - Project No. 3698877

INFORMATION REQUEST BC HYDRO on BC HYDRO REVISED PROPOSAL AND
REBUTTAL EVIDENCE from MoveUP

5.0 Integrated Resource Plan

Reference: Exhibit B-15 BC Hydro Rebuttal Evidence – Covering letter dated February 15, 2019:

On February 14, 2019, the B.C. government (the Government) issued its Comprehensive Review of BC Hydro: Phase 1 Final Report (the Final Report). As indicated in the Final Report, the Commission's jurisdiction to regulate BC Hydro will be increasing in several aspects. Amongst other changes, the Government has rescinded Direction Nos. 3, 6 and 7 (also on February 14, 2019) and issued Direction No. 8, and will be returning the review of BC Hydro's Integrated Resource Plan to the Commission. BC Hydro believes that the experience under the revised legislative structure will demonstrate that the Commission's regulatory processes, which now includes the review of BC Hydro's Integrated Resource Plan, provide a sound basis for the Commission to exercise effective oversight over BC Hydro's capital expenditures and projects.

And reference: Exhibit B-15 BC Hydro Rebuttal Evidence

A1:

21 As part of the Comprehensive Review, the Government of B.C. announced
22 that it intends to table legislation to update BC Hydro's regulatory framework,
23 including amendments to the Hydro and Power Authority Act and the Clean
24 Energy Act so that section 44.1 of the UCA applies to BC Hydro. This would
1 mean that, 1 going forward, BC Hydro's Integrated Resource Plan (IRP) would
2 be reviewed and approved by the BCUC and not by government. On
3 December 10, 2018, government issued BC Hydro Integrated Resource Plan
4 Regulation (B.C. Reg. 266/2018) under the Clean Energy Act prescribing
5 February 28, 2021 as the date for BC Hydro's next IRP. The IRP outlines our
6 long-term plan to meet B.C.'s future electricity demand through conservation,
7 generation and transmission, and through upgrades to existing infrastructure.

and A 20:

13 Through the IRP development process, we develop high-level long term
14 strategies and specific near term actions related to meeting the electricity
15 needs of the province. During the process, we compare a range of options to
16 meet electricity needs and develop the most cost-effective course of actions

17 by performing analysis at the portfolio level and trading off options in a
18 decision framework. Examples of the options compared include demand side
19 management, construction or extension of facilities, and new or renewed
20 electricity purchase agreements with power producers. The IRP is developed
21 considering our goals as well as the uncertainties in our operating
22 environment. The IRP provides context and informs lower levels of planning
23 and capital decision making.

5.1 In BC Hydro's view, what direct (i.e., derived from s. 44.1 or other express provisions of the *Utilities Commission Act*) and indirect (i.e., derived from other sources of jurisdiction) regulatory tools will be available to the Commission as a result of the restoration of its role in approving BC Hydro's IRPs which would have the practical result of enhancing "effective oversight over BC Hydro's capital expenditures and projects"? What is their relationship with the subject-matter of this proceeding?

6.0 Cost-Effectiveness and Prudence

Reference: Exhibit B-15 BC Hydro Rebuttal Evidence

A12:

24 Mr. Craig's proposal would replace the well-accepted prudence standard
25 with his own conception of "cost effectiveness." Mr. Craig's concept of
26 "cost effectiveness" is not based on industry standards nor is it in line
27 with either the Commission's or BC Hydro's use of the term, but is a new
28 concept to govern how BC Hydro should manage its capital plan.
29 Mr. Craig uses his concept of cost effectiveness to seek to determine
30 how the utility's capital plans should be evaluated, which capital projects
1 and programs should proceed, which expenditures may be imprudent,
2 and how rates should be set. For example, on page 6 of Exhibit C3-13,
3 in response to BCUC IR 1.1.2, Mr. Craig says that the Commission could
4 disallow costs if BC Hydro fails to take an action that would be more
5 "cost effective" as Mr. Craig's understands the term;

And reference: Exhibit B-15-1 BC Hydro Rebuttal Expert Evidence

A13:

9 A13. It appears that when "cost-effective" is used in Mr. Craig's evidence, the term
10 sometimes means "cost-effective" as the Commission uses the term in CPCN
11 proceedings, and sometimes the term means "cost control". For example, Mr. Craig's
12 evidence states "The CEC provides in Part I of the evidence a set of templates for
13 quantitatively representing BC Hydro's cost-effectiveness in managing and planning
14 capital expenditures and investments."3 "Planning" of capital expenditures could
15 include both cost-effectiveness and cost control, but "managing" capital expenditures

16 seems to focus on cost control. Furthermore, Mr. Craig's recommendations are for
17 ongoing annual filings across the utility as a whole, whereas cost-effectiveness is
18 focused on options and a choice between specific projects.

Comment: While it is apparent from BC Hydro's evidence that it takes issue with the aspects of capital project planning and development that Mr. Craig says should be examined by the Commission on the basis of "cost-effectiveness", it is not apparent on what basis BC Hydro says that he is applying a distinct meaning to the phrase itself, in relation to regulatory practice – i.e., that he applies a distinct "concept" of "cost-effectiveness" itself.

It appears to MoveUP that a fundamental difference between the overall approaches advocated by BC Hydro and by Mr. Craig could be expressed as a difference as to how far "upstream" in the process of planning and executing capital projects the Commission's oversight should be inserted. BC Hydro believes that Mr. Craig's proposal would insert oversight too far upstream in the process to the point where (among other things) it would interfere with the roles of Hydro's Board of Directors and management. This does not suggest that these parties are employing different *concepts* but rather advocate different *applications* of the concept.

6.1 To what extent and for what reasons does BC Hydro agree or disagree with MoveUP's characterizations of the difference between Hydro's and Mr. Craig's approaches?

6.2 If BC Hydro believes that Mr. Craig is employing a different concept of "cost-effectiveness" than BC Hydro and/or the Commission, please detail the meaning Hydro is attributing to Mr. Craig and that which is employed by BC Hydro and/or the Commission.

6.3 Please confirm that BC Hydro believes that its capital spending should be planned to be "cost-effective" as that phrase is employed in Mr. Craig's evidence. If not confirmed, please explain in detail why not.

Comment: With reference to Exhibit B-15-1, it appears to MoveUP that BC Hydro's evidence distinguishes between the regulatory roles of the "cost-effectiveness" standard and the "prudence" standard on the footing that cost-effectiveness is applicable in proceedings to approve the initiation of capital projects (such as s. 45.1 of the UCA and the prospective approval of proposed projects in a Revenue Requirements proceeding) and that prudence is the applicable standard in the retrospective authorization of recovery of costs of approved projects in a Revenue Requirements proceeding.

6.4 Does BC Hydro agree with this characterization? If not, please explain in detail why not.

7.0 Oversight and Transparency of Capital Project Development and Selection

Reference: *Zapped - A Review of BC Hydro's Purchase of Power from Independent Power Producers* conducted for the Minister of Energy, Mines and Petroleum Resources, Ken Davidson, February 2019, page 34:

When the NTL [Northwest Transmission Line] was announced, the Province stated that “the province will invest.” Very soon that became, “the Province will tell BC Hydro to invest.” When the Province committed to NTL, it was purely an economic development project; there was no business case that would support BC Hydro making an independent decision to invest, especially given that most of the transmission line’s capacity is still not being used. The Government had BC Hydro take a risk that did not pay off.

7.1 Does BC Hydro agree that the interests of ratepayers would be served by enhancing oversight and transparency of the process of selecting and planning capital projects, for example by restoring the role of the Commission with respect to approvals that had been reserved to government under the *Clean Energy Act* and other statutory instruments?

7.2 Does BC Hydro agree that this oversight and transparency would be enhanced, and with it the protection of ratepayers from sub-optimal decision-making by government, of the sort described in the extract quoted above, if oversight were extended further upstream into the decision-making process? If not, please explain in detail why not.