

June 6, 2019

VIA E-FILING

Patrick Wruck
Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3



Reply to: Leigha Worth
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Ph: 604-687-3034
Our File: 7636

Dear Mr. Wruck,

**Re: British Columbia Hydro and Power Authority Review of the Regulatory Oversight of Capital Expenditures and Projects ~ Project No. 1598877
BCOAPO Information Requests No. 2**

We represent the BC Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, Tenant Resource and Advisory Centre, and Together Against Poverty Society, known collectively in BC Hydro regulatory processes as "BCOAPO et al." ("BCOAPO").

Enclosed please find the BCOAPO's Information Request No. 2 with respect to the above-noted matter.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Original on filed signed by:

Leigha Worth
Executive Director | General Counsel

Encl.

REQUESTOR NAME: **BCOAPO**
INFORMATION REQUEST ROUND NO: **2**
TO: **BRITISH COLUMBIA HYDRO & POWER
AUTHORITY**
DATE: **June 6, 2019**
PROJECT NO: **3698877**
APPLICATION NAME: **BC Hydro Capital Expenditures and
Projects**

30.0 Reference: Exhibit B-15, pages 6-8

30.1 The responses to Q2 and Q3 appear to indicate that BC Hydro does not object to providing the information set out in paragraph 366 of the CEC Evidence but rather takes exception with the requirement being “codified” as part of the filing guidelines and required annually. Please clarify if this is a reasonable interpretation of BC Hydro’s rebuttal evidence.

31.0 Reference: Exhibit B-15, pages 14-15

31.1 For the F2014-F2018 period, for how many of the 493 capital projects were the actual costs within +5 per cent to -5 percent of the original approved cost?

31.2 What was the total aggregate original approved cost of the projects that fell within this +5 percent to -5 percent range?

**32.0 Reference: Exhibit B-15, page 15
Exhibit B-7-1, page 56**

Preamble: The Rebuttal Evidence states: “First, at the time of the RRA, the Commission can make determinations with respect to whether projects are in the public interest before significant dollars have been spent.”

BC Hydro’s Revised Proposal states: “The Annual Report has historically included the following information on capital expenditures and projects:

- (a) a summary of capital expenditures by capital category;
- (b) a listing of the planned expenditures in the current fiscal year for projects over the materiality limit (\$2 million for Information Technology projects, \$5 million for all other capital projects), and Demand Side Management”

32.1 What is the timing of the Annual Report relative to the fiscal year end?

32.2 Does the reference to the “current fiscal year” in Exhibit B-7-1 mean the fiscal year that has just been completed or the fiscal year to come?

32.3 RRAs typically cover a two or three year period (e.g., F2017-2019 and F2020-2021). If the “current fiscal year” is referring to the previous year then, apart from projects that qualify for a CPCN application, then what opportunity exists, between RRAs, for the BCUC to become apprised of

new projects that may arise and make determinations as to whether they are within the public interest before significant dollars are spent?

- 32.4 Apart from directing that a CPCN Application is required, what opportunity exists, between RRAs, for the BCUC to review whether new projects that may arise are within the public interest before significant dollars are spent?

33.0 Reference: Exhibit B-15, page 16

- 33.1 Over the last ten years, has BC Hydro had any capital expenditures disallowed by the BCUC on the basis of imprudence?

33.1.1 If so, please outline the project, the circumstances involved, and the magnitude of the disallowance.

33.1.2 If no project has been disallowed by the BCUC within the last ten years, please outline the most recent example of the BCUC disallowing a BC Hydro project, the circumstances of the disallowance and its magnitude.

- 33.2 Over the last ten years, has the BCUC been requested to consider the disallowance of the capital expenditures by BC Hydro on the basis of imprudence?

33.2.1 If so, please outline the project and the circumstances involved.

33.2.2 If no such request has been made within the last ten years, please outline the project and the circumstances involved.

**34.0 Reference: Exhibit B-15, pages 19-20 and page 34
F2020-2021 RRA, page 6-29 and Appendix H, page 15**

Preamble: The Rebuttal Evidence states (page 20): “Finally, improvements in the capital portfolio cost effectiveness may not necessarily lead to financial cost savings. Cost effectiveness should consider many factors other than financial ones such as risk mitigation benefits, alignment with corporate objectives and improvements to key performance indicators. Assuming that the cost effectiveness of a capital portfolio could be calculated, increasing cost effectiveness may, for example, be the result of mitigating safety, environmental and reliability risks, which could ultimately increase financial costs but result in a higher overall net value”.

The Rebuttal Evidence also states (page 34): “The annual capital planning process applies a common approach to planning, prioritizing and governing investments across BC Hydro so that the Capital Plan is updated and prioritized to respond to the latest information on the system risks and needs. This is done by selecting the highest priority investments that can be cost effectively delivered given available financial and labour resources in order to meet overall business objectives and provide a consistent and appropriate management of risks across all asset categories.”

The F2020-2021 RRA states: “The risk profile of the capital plan is based on BC Hydro’s enterprise-wide framework for capital prioritization. This framework describes the assessment and prioritization process related to proposed capital investments. Investments are assessed based on the primary driver of the proposed investment, as follows:

- Investments that primarily mitigate risk are scored for prioritization using a methodology that is aligned with the BC Hydro Corporate Risk Matrix; and
- Investments that primarily create value are scored for prioritization using a net value per dollar invested metric. The value prioritization is mainly used for some capital expenditures in the Technology Portfolio.

Through BC Hydro’s enterprise-wide framework for capital prioritization, capital investments are classified into one of three categories:

- Mandatory investments driven by legal and regulatory requirements;
- Committed investments not to be postponed. This category includes projects that were prioritized in previous capital plans and are now economically unreasonable to cancel; and
- Investments to be prioritized. This category includes projects that could be re-prioritized without significant costs.”

Appendix H sets out BC Hydro’s Corporate Allocation Risk Matrix.

34.1 Does the F2019-F2020 RRA include information regarding which of the above three categories each of the capital projects identified in Appendices I and J fall into?

34.1.1 If yes, where?

34.1.2 If not, will BC Hydro commit to providing such information in future RRAs?

34.2 Does the F2019-2020 RRA set out the actual results of the prioritization process for those investments falling to third category – Investments to be Prioritized?

34.2.1 If yes, where?

34.2.2 If not, will BC Hydro commit to providing such information in future RRAs?

35.0 Reference: Exhibit B-15, pages 2 and 22-23

Preamble: The Rebuttal Evidence (page 2) states: “Mr. Craig’s proposal is not confined to the filing of oversight information as he claims, but would direct BC Hydro’s management in terms of what information should be created and used to manage its capital portfolio and the standard by which our capital portfolio should be judged to be prudent.”

- 35.1 Is it not within the purview of the BCUC to decide the basis on which capital expenditures will be judged to be “imprudent” for purposes of cost recovery through rates?

36.0 Reference: Exhibit B-15-1, page 3

Preamble: The Evidence states: “The Commission is also responsible for evaluating the prudence of BC Hydro’s capital projects. The evaluation of prudence takes place after a project is implemented (but without using hindsight).
Mr. Craig’s evidence emphasizes the Commission’s role in relation to the cost effectiveness of BC Hydro’s capital spending. However, it also appears to conflate control of BC Hydro costs with assessing cost-effectiveness of proposed projects. The latter is part of the Commission’s role but the former, control of costs, is not.”

- 36.1 Wouldn’t an evaluation of prudence include an assessment of whether or not BC Hydro had taken appropriate measures to control costs? If not, why not?
- 36.2 In Mr. Carpenter’s and Mr. Brown’s view, what considerations should go into a BCUC (after the fact) evaluation as to the prudence of a particular capital expenditures?

37.0 Reference: Exhibit B-15-1, pages 7-8

Preamble: The Evidence states: “However, anticipated levels of capital expenditure do not ultimately influence the level of costs recovered from customers. BC Hydro’s rates are trued-up such that rates ultimately only reflect actual capital expenditure. In particular, if actual capital expenditure turns out to be lower than the anticipated level, then that difference is returned to customers by reducing rates. It does not accrue to BC Hydro as increased returns.”

The Evidence also states: “Controlling capital costs involves identifying worthwhile initiatives that have a good chance of reducing costs, and managing their successful implementation. This is the function of utility management, and regulators typically do not try to second guess management decisions because they do not have the staff expertise and other resources to be effective in doing so.”

- 37.1 Please provide Mr. Carpenter’s and Mr. Brown’s understanding as to how BC Hydro’s rates are trued up such that rates ultimately only reflect actual capital expenditures. In doing so, please address how depreciation, debt charges, return on equity are each trued up.
- 37.2 Since it is the actual costs that are ultimately recovered from customers, doesn’t this make the issue of “cost control” all that more important from the perspective of rate payers and the BCUC?

37.3 If BC Hydro's rates are trued-up for actual costs, what incentives exist for BC Hydro "identifying worthwhile initiatives that have a good chance of reducing costs, and managing their successful implementation."

38.0 Reference: Exhibit B-15-1, page 10

Preamble: The Evidence states: "If a regulator had approved a project as cost-effective, and the project was implemented as anticipated, the regulator would not reject it for inclusion in rates due to imprudence even if unanticipated changes in business or market conditions occurred such that the project became less cost-effective after the fact. In short, an assessment of cost-effectiveness is undertaken before a project is completed, whereas prudence is properly a forward-looking assessment undertaken afterwards without resort to hindsight review."

38.1 If "unanticipated changes in business or market conditions occurred such that the project became less cost-effective", is it legitimate for a regulator to consider, as part of its prudence considerations, whether or not the utility "prudently" managed the change in circumstances? If not, why not?

39.0 Reference: Exhibit B-7-1, page 26, line 7-11 & page 63 (line 4) and Appendix D F2017-F2019 RRA, Appendix I

39.1 With respect to the Capital Information Template (Appendix D) that will be used in Revenue Requirement Applications, is the "Development Phase" based on: i) the phase the Project is in at the time the template is prepared, ii) the phase the Project is expected to be in at the start of RRA test year period, iii) the phase the Project is expected to be in at the end of the RRA test year period, or iv) some other metric?

39.2 With respect to Projects and Programs Greater Than \$5 M Appendix (Appendix I), please clarify the following:

39.2.1 Is the "Development Phase" based on: i) the phase the Project is in at the time the template is prepared, ii) the phase the Project is expected to be in at the start of RRA test year period, iii) the phase the Project is expected to be in at the end of the RRA test year period, or iv) some other metric?

39.2.2 With respect to the Implementation Approval ISD, at the completion of what development phase is a project typically first approved by BC Hydro for implementation (per footnote 10)?

40.0 Reference: Exhibit B-7-1, pages 27 and 35 (lines 16-18) Exhibit B-4, BCOAPO 1.8.1

Preamble: It is noted that Appendix K from the F2017-F2019 RRA identifies capital expenditure and capital addition variances by expenditure category (e.g., Transmission Growth-Regional System Reinforcement) and only discusses individual projects if there is

material variance for the expenditure category overall. However, at page 35, BC Hydro states: “BC Hydro will provide in revenue requirements applications, as part of its variance explanation for projects over the materiality limit, an explanation for any resulting changes in overall project costs”.

- 40.1 Is it BC Hydro’s proposal that for individual projects where the most recent rate approval included forecast spending/in-service addition values and total forecast spending/in-service additions exceed a materiality limit then variance explanations will be provided in the next RRA if there are material variances in either i) actual vs. forecast capital spending or ii) actual vs. forecast in-service additions over the period covered by the most recent rate approval?
 - 40.2 If not, what does the statement on page 35 refer to?
 - 40.3 If yes, what are the proposed “materiality” limits?
 - 40.4 If yes, has BC Hydro done this in its recent F2020-F2021 RRA?
- 41.0 Reference: Exhibit B-7-1, pages 18 and 25-26
Exhibit B-7-1, Appendix B, pages 1-2
Exhibit B-4, BCOAPO 1.9.1
Exhibit B-4, BCSEA 1.11.1 and MoveUp 1.2.1**
- 41.1 Neither the discussion on pages 18 and 25-26 nor the proposed 2018 Capital Filing Guidelines acknowledge that for projects that have CPCN or an approved expenditures schedule and where circumstances have changed materially then the question as to whether a project is still required could potentially be addressed in a revenue requirements proceeding – as BC Hydro has done in BCOAPO 1.9.1. Should paragraph 3 in Appendix B be revised accordingly?
 - 41.1.1 If not, why not?
 - 41.1.2 If yes, please provide revised wording.
 - 41.2 Similarly, paragraph 5 in the proposed 2018 Capital Filing Guidelines does not address the circumstances where projects that do not meet the requirement for a CPCN or a section 44.2 application were included in a prior RRA and the actual costs for the prior RRA period (or the overall project costs) are now materially different than originally forecast. In such instances should the reasons for such variances and the continued need/prudence for the project be subject to review in the current revenue requirements proceeding?
 - 41.2.1 If not, why not?
 - 41.2.2 If yes, please provide revised wording.

**42.0 Reference: Exhibit B-7-1, Appendix B, pages 2-3
Exhibit B-4, BCOAPO 1.10.1**

42.1 Would BC Hydro be willing to include, as part of its Revenue Requirements Application filing, the available Annual Reports for the years covered by the most recent rate approval (e.g. the F2020-F2021 RRA Filing would include the available annual Reports for F2017 through F2019)?

**43.0 Reference: Exhibit B-7-1, Appendix B, page 2
Exhibit B-4, BCOAPO 1.12.1 and 1.15.3
Exhibit B-7-1, pages 19, 26, 35 and 63
Exhibit B-4, BCSEA 1.12.1; BCUC 1.13.1 and CEC 1.9.1**

Preamble: In frequent places reference is made to a “materiality limit”. For example at page 19 (with respect to compliance reporting), BCOAPO 1.12.1 (with respect to financial approvals), page 26 & Appendix B, page 2 (with respect to the provision of detailed project information in an RRA), page 35 (with respect to the provision of variance explanations) and page 63 (for listing projects in an RRA).

43.1 Are these materiality limits based on the project’s expected or authorized cost?

43.2 Please provide a schedule that sets out the various circumstances where materiality limits apply and, in each case, indicate what the “materiality” limit is?

43.3 With respect to BCSEA 1.12.1 and BCUC 1.13.1, did BC Hydro engage the Commission regarding the materiality limit to be used in the F2020-F2021 RRA? If so, please provide any formal documentation from the BCUC regarding the materiality limit(s) used?

44.0 Reference: Exhibit B-7-1, pages 48 and 54

Preamble: The cover letter to Exhibit B-15 states: “BC Hydro will be filing its Fiscal 2020 to Fiscal 2021 Revenue Requirements Application (RRA) by the end of this month. As the application will exemplify a number of aspects of BC Hydro’s Revised Proposal in Exhibit B-7, it will also be of interest to the Commission and interveners in this proceeding. BC Hydro therefore requests that its Fiscal 2020 to Fiscal 2021 RRA, once filed, be added to the evidentiary record in this proceeding”.

44.1 At page 48 BC Hydro states: “BC Hydro will identify in Appendix I of revenue requirements applications projects above the materiality limit that are anticipated to be delivered as part of Programs of Projects, and where available will provide a summary of the program strategy for all identified Programs of Projects”. Has BC Hydro done this in the recently filed F2020-F2021 RRA and, if so, please provide a cross-reference to examples.