

REQUESTOR NAME: Clean Energy Association of B.C. (CEABC)

INFORMATION REQUEST ROUND NO: #3

TO: BRITISH COLUMBIA HYDRO & POWER AUTHORITY

DATE: September 19, 2019

PROJECT NO: 1598990 / Order G-45-19

APPLICATION NAME: F2020-F2021 Revenue Requirements Application (“F20-21 RRA” or “RRA”)

49.0 Reference: Exhibit B-11, Evidentiary Update, Section 1, page 2, reflecting the actual 2019 results, and Section 1.6, page 15, Powerex Net Income, and Appendix A, Schedule 1.0.

In discussing the impact of the actual 2019 results, BC Hydro states that,

“... this includes actual Powerex Net Income for fiscal 2019 which was \$230.4 million higher than forecast in the Application, increasing the credit balance in the Cost of Energy Variance Accounts, which BC Hydro has proposed to refund to ratepayers over the test period.”

And in Section 1.6, BC Hydro states that,

“As a result, Subsidiary Net Income is \$151.6 million higher in fiscal 2020 and \$92.6 million higher in fiscal 2021...”

However, Appendix A, Schedule 1.0 shows Subsidiary Net Income as \$124.3, and Powerex Net Income as \$120.6 for each of the test period years, which are the same values as originally given in Appendix A of the Application (Exhibit B-1).

- 49.1 The original Application (Exhibit B-1) already forecast a Powerex Net Income for F2019 that was \$90 million higher than the RRA Plan (\$205 million forecast vs. \$115 million planned). Is BC Hydro now stating that the actual result for F2019 is an additional \$230 million higher, making a total of \$320 million higher than the original RRA Plan? And, therefore, that the actual Powerex Net Income for F2019 is \$435 million compared to the original plan for \$115 million?
- 49.2 If the Subsidiary Net Income achieved in F2019 is actually \$320 million higher than planned, then why is the plan for the test years not increased? Why is some increase not reflected in the updated planned Powerex Net Income for F2020 and F2021 (as shown in Appendix A, Schedule 1.0 of the Evidentiary Update)?
- 49.3 Please explain how this \$320 million of additional profit for Powerex was achieved. What unanticipated market conditions or unique circumstances caused this significant windfall profit?
- 49.4 When did these special conditions occur that caused the additional profit to be achieved?
- 49.5 Are these windfall conditions unique to circumstances that occurred in F2019, or are they likely to occur again in the test period or in future years?
- 49.6 Why was the additional \$230 million of this windfall profit not known and included in the February filing of the Application?

- 49.7 When BC Hydro assigned its gas transmission rights to Powerex, did it also transfer the fixed gas transmission costs to Powerex? If not, where is this accounted for in BC Hydro's financial reports?
- 49.8 Of the 0.99% rate reduction offered to ratepayers in F2021, what portion of it is attributable to the \$320 million windfall gain made by Powerex in F2019?

50.0 **Reference: Exhibit B-11, Evidentiary Update, Section 1.5, page 15, Finance Charges Have Increased Due to the Full Implementation of IFRS 16, and Appendix A, Schedule 8.**

In section 1.5, BC Hydro states that,

"... The resulting impact to Finance Charges is an increase of \$44.3 million in fiscal 2020 and \$43.3 million in fiscal 2021. This increase is partially offset by lower finance charges on debt that was hedged subsequent to the filing of the Application, at interest rates that were lower than forecast in the Application."

Appendix A, Schedule 8, shows the Total Gross Finance Charges (line 1) for F2019 were finalized as \$1192.2 million. This is \$507 million greater than the February, 2019 forecast amount of \$684.6 million, shown in Appendix A of the Application. Line 1 of this Schedule 8.0 appears to be the sum of the Regulatory Account Additions (line 8) and the Total Before Regulatory Accounts (line 20).

- 50.1 Of the \$507 million increase in the actual year-end charge compared to the forecast filed in the Application, approximately 80% of it (\$423 million) appears to come from line 7, titled Debt Management. Please explain what the line Debt Management means, how it is determined, and why it changed so drastically between the Application and the Update.
- 50.2 According to footnote 4 on page 5 of the Evidentiary Update, "*the Gross View shows the total costs for each component of the revenue requirements before any forecast transfers to regulatory accounts... 'Gross View' shows the total costs incurred...*" If the Gross View is before any transfers, then why does the Total Gross Finance Charges (line 1 of Schedule 8.0) appear to include the amount of the Regulatory Account Additions (line 8 of Schedule 8.0)?
- 50.3 What is the total amount of BC Hydro's long-term debt, and what amount of BC Hydro's debt has been hedged? Please describe how it has been hedged, and for what periods of time in the future it has been hedged.
- 50.4 If interest rates were to rise by 1%, what would be the impact on BC Hydro's annual finance charges: a) during the test period; b) in F2025; c) in F2030; and d) in F2035?

51.0 **Reference: Exhibit B-11, Evidentiary Update, Appendix G, Section 5.6, Site C Project Capital Expenditures and Additions Variance.**

In section 5.6, BC Hydro offers the following explanation of Site C expenditure variances:

Site C Project fiscal 2019 capital expenditures and capital additions are presented in the tables below.

Table G-21 Fiscal 2019 Site C Project Capital Expenditures Variances

(\$ million)	F2019			
	RRA	Actual	Diff	% Diff
	1	2	3=2-1	4=3/1
Total Site C	829.2	1,116.7	287.5	35%

In December 2014, the project was approved for the total Expected Amount of \$8.3 billion. On February 9, 2018 BC Hydro's Board of Directors approved a revised budget of \$10.7 billion, including project reserve.

Fiscal 2019 capital expenditures were \$287.5 million or 35 per cent above the fiscal 2019 RRA Plan, established prior to the revision of the project's budget, primarily due to:

- Main civil works expenditures for unplanned investment in equipment, settlement of claims and incentive payments;
- The transmission line contract being awarded for higher than the planned amount;
- Higher than planned south bank substation costs for major equipment and electric materials;
- Additional infrastructure costs related to the stilling basin;
- Higher than planned construction management and engineering costs due to an increase in required resources and a higher reliance on contractors; and
- Reservoir clearing work incurred in fiscal 2019 that was planned in prior fiscal years.

The increases described above were partially offset by highways work and property purchases being shifted to future fiscal years.

- 51.1 Please provide a breakdown of the budgets and expenditures for each of the six listed activities plus highways work and property purchases,
- 51.2 For the F2019 year, please show the original Budget, the current Budget, the Actual Expenditure, the Difference to the original Budget, and % Difference for each activity.
- 51.3 For the years F2020 through project completion, please show the current Budget forecast for each activity.
- 51.4 Please describe the work and the expenditures that are "being shifted to future fiscal years" and why.

- 51.5 Please briefly describe the “highways work” and why it was not done in F2019 as planned. When is that work now scheduled?
- 51.6 Please briefly describe the “property purchases” and why they were not made in F2019 as planned. When are those purchases now scheduled?

52.0 **Reference: Exhibit B-11, Evidentiary Update, Appendix F, Implementation of IFRS 16 Update.**

In Appendix F, BC Hydro states that:

As discussed in section 8.13.3 of Chapter 8 of the Application, the IFRS 16 lease impacts included in the Application were estimates as the standard was not effective until April 1, 2019 and BC Hydro had not completed its impact assessment. BC Hydro has now completed its implementation of IFRS 16 and the revised impact of the adoption at April 1, 2019 compared to the estimate provided in the Application is shown in [Table F-1](#). The resulting net change of \$82.8 million has been included as an addition to the Non-Heritage Deferral Account.

Table F-1 Electricity Purchase Agreements – Comparison of Forecast Adjustment to Actual Impact

Financial Statement Item Debit/(Credit)	IFRS 16 Adjustment at April 1, 2019 (\$ million)	
	Application Forecast	Actual
Prepaid Lease	(17.7)	(17.7)
Property, Plant and Equipment	(617.7)	(617.7)
Right-of-Use Assets	93.1	1,428.4
Lease Obligations	560.4	(857.8)
Net Change	(18.0)	64.8

[Table F-2](#) below shows the net impact of the completion of IFRS 16 implementation on BC Hydro’s revenue requirements in fiscal 2020 and fiscal 2021, compared to the Application.

- 52.1 It appears that the implementation of the IFRS caused a significant shift between “Right-of-Use Assets” and “Lease Obligations”. Please describe why this occurs under these new standards.
- 52.2 How does the new classification system define these two account classifications differently than the previous system?
- 52.3 Is the “Right-of-Use Assets” classification new to BC Hydro? What were these classified as previously? Where does it appear within BC Hydro’s financial statements?
- 52.4 Is the term ‘Lease Obligations’ also referred to as “Finance Lease Obligations”? Where does it appear within BC Hydro’s financial statements?
- 52.5 What determines whether a long-term EPA is classified as a Lease Obligation or not?

- 52.6 What implications does this reclassification have for BC Hydro's future amortization and depreciation expenses, compared to previous practice?
- 52.7 If the new standard was not effective until April 1, 2019, is BC Hydro giving effect to it as of the fiscal year ended March 31, 2019? What provisions will be given effect during the test period or thereafter? When will they be given effect and what impacts are expected?
- 52.8 When was the new IFRS 16 proposed, and when was it adopted by BC Hydro? Why was this reclassification not anticipated at the time of the Application filing in February?

53.0 Reference: Exhibit B-11, Evidentiary Update, Section 1.2 and Appendix C, Updated Cost of Energy Forecast.

In Appendix C, and the discussion of Cost of Energy in Section 1.2, most of the meaningful data has been redacted. It is very difficult for interveners to understand what changes have been made, or to ask informed questions, when all of the pertinent information is withheld for reasons of confidentiality.

CEABC is of the understanding that the confidentiality restriction will be lifted, and all of the redacted information will be provided by BC Hydro as of October 18, 2019, at which time, all interveners will have a further opportunity to pose IRs on this information.

- 53.1 Is CEABC's understanding correct? Will BC Hydro be releasing all the redacted information on October 18, and responding to further IRs relating to any of this redacted information?
- 53.2 If the need for confidentiality is alleviated as of October 18, 2019, then CEABC requests that BC Hydro also provide the information it has previously redacted or declined in its responses to CEABC's earlier IRs, either for similar concerns about confidentiality or because the actual F2019 results had not yet been audited and approved.

Should there remain some need for confidentiality in any of these responses, CEABC requests that BC Hydro at least provide the information for all time periods more than 1 year in the past. The previous IRs where BC Hydro has voiced a similar concern about confidentiality include the following:

The following IRs from round 1:

- IR 1.6.4 and 1.6.5, in which BC Hydro declined to provide the F2019 data on the grounds that the actual results were "*unaudited and unapproved and therefore are not yet available.*" This data should now be available as part of the Evidentiary Update.
- IR 1.8.3 and 1.8.4, in which BC Hydro stated that to reveal monthly inflow amounts would "*enable third parties to model BC Hydro's system so as to determine the depth of BC Hydro's energy needs and its potential import and export requirements.*" Surely, after October 18, that data will be so dated as to be of no use to those third parties. If there is some confidentiality concern regarding the most recent year, then please omit the most recent year but provide the data for all the prior years requested in the IR. If monthly data is too sensitive, then please provide it as quarterly data.

The following IRs from round 2:

- IR 2.25.1, in which BC Hydro maintained that giving monthly system storage numbers would "*would enable third-parties to model BC Hydro's system to predict BC Hydro's import and export requirements.*" Surely, after October 18, that data

will be so dated as to be of no use to those third-parties. If there is some confidentiality concern regarding the most recent year, then please omit the most recent year but provide the data for all the prior years requested in the IR. If monthly data is too sensitive, then please provide it as quarterly data.

- IR 2.26.5, 2.38.5 and 2.38.6, in which BC Hydro declined to provide monthly actual generation and System Storage data because it would “*enable third-parties to model BC Hydro’s system to estimate the depth of BC Hydro’s energy need and to predict BC Hydro’s import and export requirements.*” Surely, after October 18, that data will be so dated as to be of no use to those third-parties. If there is some confidentiality concern regarding the most recent year, then please omit the most recent year but provide the data for all the prior years requested in the IR. If monthly data is too sensitive, then please provide it as quarterly data.