

BRITISH COLUMBIA UTILITIES COMMISSION

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY

F2020 TO F2021 REVENUE REQUIREMENTS APPLICATION – PROJECT NO. 1598990

INFORMATION REQUEST NO. 1 TO THE ASSOCIATION OF MAJOR POWER CONSUMERS  
FROM MoveUP

1.0 TOPIC: COST OF SERVICE STUDY

Reference: Exhibit C11-11 at page 8:

**“The BC Government’s Directive No. 8 limits the BCUC’s authority to rebalance rates based on the cost to serve each of BC Hydro’s rate classes, and therefore discourages reviewing the cost of service methodology.**

**“Section 58.1 (7) was added to the UCA effective May 16, 2019 stating that:**

**58.1 (7) The commission may not set rates for a public utility for the purpose of changing the revenue-cost ratio for a class of customers except on application by the public utility.”**

And Reference Exhibit C11-11 at 33:

**“RECOMMENDATION/CONCLUSION: BC Hydro should bring forward the Cost of Service study for an open and transparent review with a clear intent to produce defensible Revenue to Cost ratios for each class. Cost of Service studies and fair Revenue to Cost ratios are important to setting the just and reasonable rates required by the Utilities Commission Act.”**

1.1 Given that the Commission must not adjust rates for the purposes of rebalancing, what is the practical purpose of the Fully Allocated Cost of Service Study that AMPC recommends? What would be the practical benefit of such a study to the Commission and its processes? How would AMPC justify the cost and other resources required to conduct a FACOS study in relation to its value?

Reference Exhibit C11-11 at page 3:

**“12. BC Hydro should bring forward the Cost of Service study for an open and transparent review with a clear intent to produce defensible Revenue to Cost ratios**

**for each class. Cost of Service studies and fair Revenue to Cost ratios are important to setting the just and reasonable rates required by the *Utilities Commission Act*. . . .”**

1.2 In order to provide a fully informative and transparent cost of service review, and in order to satisfy the Bonbright principle of efficiency, does AMPC agree that it would be necessary to consider marginal costs of service in addition to a FACOS analysis? Please fully explain AMPC’s rationale in either event.

1.3 Does AMPC agree that the Commission has the discretion to rely on Marginal Cost considerations rather than (or in addition to) Fully Allocated Cost of Service considerations in setting rates? If not, please explain the basis for that contention.

## **2.0 TOPIC: DEPRECIATION STUDY**

**Reference: Exhibit C11-11 at page 54:**

**“RECOMMENDATION/CONCLUSION: There is significant basis for concern that BC Hydro’s depreciation rates do not reflect reliable estimates of asset life and the consumption of service value in the test years. The BCUC should direct BC Hydro to complete a full depreciation study including assessment of the adequacy of accumulated depreciation balances. Such study should be completed prior to the next RRA and be slated for detailed review and testing at that time.”**

2.1 To what extent would a new depreciation study need to take account of the current and anticipated rate of technological change in the energy sector to avoid unfairly burdening future generations of ratepayers with excessive undepreciated, but no longer economic, utility assets? Please explain how this problem should be approached in the proposed depreciation study.

## **3.0 TOPIC: RATE PRESSURES ON RATEPAYERS**

**Reference: Exhibit C11-11 at page 19:**

**“RECOMMENDATION/CONCLUSION: The BCUC should recognize and indicate a high priority to addressing issues of industrial rate competitiveness. The issue is important. Load reductions or and permanent load loss harm BC Hydro’s ability to recover its costs, and ultimately affects all ratepayers through higher rates. . . . A clear BCUC finding in this proceeding will facilitate a consistent approach across the multiple near-term BCUC proceedings where industrial rate competitiveness concerns can be expected to arise (e.g., return on equity and rate design).”**

**Comment:**

**It is a valid concern that BC Hydro rates have been markedly increasing in recent years, but this should be recognized as a concern for all ratepayers, not just large industrial customers. For residential customers, particularly low-income households, there is the issue of affordability and 'energy poverty'. For smaller industrial and other general customers there is the issue of affordability and business viability.**

3.1 Does AMPC agree with the comment stated above? If not, to what extent and on what basis?

3.2 Does AMPC take the position that in relation to the impact of rising BC Hydro rates upon ratepayers, higher priority should be given to its members than to members of other rate classes? If so please explain on what basis.

**Comment:**

**Intergroup argues that if uncompetitive rates lead to load reductions and loss that will impair BC Hydro's ability to recover costs. But that is true for the loss of load from any group of customers (e.g. loss of residential and general load to self and distributed generation) and in any event calls for a fundamental rethinking of the appropriate principles governing the setting of rates. There is an increasingly strong case for energy rates to be designed to recover short run marginal energy costs with fixed charges designed and implemented to recover in fixed system costs. That would greatly mitigate the spillover impact of reductions in load.**

3.3 Does AMPC agree with the comment stated above? If not, to what extent and on what basis?

**4.0 TOPIC: TIER 1/TIER 2 RATE STRUCTURE**

**Comment:**

**Another area where Intergroup seeks to protect large industrial customers at the expense of all other customers concerns the Tier 1 / Tier 2 rate structure that has enabled industrial customers to significantly reduce the average energy rate they pay. By reducing consumption to 90% of their customer base load, industrial customers have been able to reduce their average cost of energy to the low Tier 1 rate. Intergroup argues that this should not be seen as unfair to other customers as that was the intent of the two-tier rate structure – to encourage industrial customers to 'supply' conservation up to 10% of their base load.**

**The problem with their argument however is that just as BC Hydro has overpaid for IPP supply (which Intergroup acknowledges), it has overpaid for industrial load reductions. The Tier 2 rate was justified by a LRMC of energy that was based in part on the inflated cost of IPP supply and in any event exceeds BC Hydro's latest estimates of the LRMC. Moreover, in terms of current rate impacts of industrial conservation (which is after all load loss), the revenue loss far exceeds the actual value of the energy 'freed up' by reductions in industrial consumption.**

**Intergroup's analysis would support doing whatever is possible to reduce purchases of over-priced IPP supply. Logically that suggests BC Hydro should do whatever is possible to reduce 'purchases' of over-priced industrial conservation (the foregoing of revenues at the tier 2 rate).**

4.1 Does AMPC disagree with the comment stated above? If so, to what extent and on what basis?