BC HYDRO F2020–F2021
REVENUE REQUIREMENTS EXHIBIT C8-7

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Norton Rose Fulbright
1800 - 510 West Georgia Street
Vancouver, BC, V6B 0M3
Attn: Matthew Keen
By Email: matthew.keen@nortonrosefulbright.com

Dear Sir:

Re: Re: British Columbia Hydro and Power Authority F2020 to F2021 Revenue Requirements Application, BCUC Project No. 1598990
B.C. Sustainable Energy Association Information Request
to Association of Major Power Customers

Attached please find BCSEA's Information Request to AMPC. A version in Word format will be provided separately. If you have any questions, please do not hesitate to contact me.

Yours truly,

William J. Andrews

Barrister & Solicitor

Encl.

REQUESTOR NAME: **BC Sustainable Energy Association**

INFORMATION REQUEST ROUND NO: **1**

TO: **Association of Major Power Customers (AMPC)**

DATE: **December 13, 2019**

PROJECT NO: **1598990**

APPLICATION NAME: **BC Hydro F2020 to F2021 Revenue Requirements Application**

1.0 Topic: Industrial Rate Competitiveness
Reference: Exhibit C-11-11, AMPC Evidence, Pre-Filed Testimony of InterGroup Consultants, Section 4.1, Industrial Rate Competitiveness, p.15; Conclusion and Recommendation 1, p.1 and p.19

"1. The BCUC should recognize and indicate a high priority to addressing issues permanent load loss harm BC Hydro's ability to recover its costs, and ultimately affects all ratepayers through higher rates (Section 4.1). 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) (**Section 4.1**)."

1.1 What is InterGroup's definition of "industrial rate" and "industrial customer" in the Evidence?

1.1.1 If InterGroup's definition of "industrial rate" and "industrial customer" extends across customer classes (i.e., including some but not all Transmission Service customers and some but not all Large General Service customers), is the intention that industrial customers and industrial rates should be treated differently than non-Industrial customers within the same customer classes?

1.2 Why does InterGroup focus exclusively on industrial rates and industrial customers, as distinct from other customer classes such as Residential, Small General Service Medium General Service? Is it because AMPC's membership is mainly industrial customers? Is it because industrial customers are mainly energy intensive and trade exposed ("EITE") customers?

1.3 Figure 4-1 is based on "Large-Power Customers with 50,000 kW power demand, 30.6 GWh monthly consumption, 120 kV supply voltage and 85% load factor." Please explain how this relates to the Industrial Customers referred to in the Evidence.

1.4 Do electricity prices for Residential and General Service customers show the same pattern as is indicated for Large-Power Customers in Figure 4-1?

1.5 Please explain what it would mean for the BCUC to "recognize and indicate a high priority to addressing issues of industrial rate competitiveness."

1.5.1 Would this be simply a general statement? Is it intended to be an expression of the Commission's approach? Is it a recommendation addressed to BC Hydro? To the BC government? To other customer classes?

1.5.2 Does “high priority” mean higher priority than some other objective? Is the recommendation that the Commission would put a higher priority on containing increases in the rates paid by industrial customers than in the rates paid by other customer classes?

1.6 In addition to return on equity and rate design, what other near-term BCUC proceedings (where industrial rate competitiveness concerns can be expected to arise) does AMPC anticipate?

1.7 What effect, legal or otherwise, would Commission recognition in the current proceeding of a high priority to addressing issues of industrial rate competitiveness have on the Commission panel’s decision-making in future proceedings?

2.0 Topic: Recovery of Full Revenue Requirement
Reference: Exhibit C-11-11, AMPC Evidence, Pre-Filed Testimony of InterGroup Consultants, Section 4.2, Recovery of Full Revenue Requirement, p.19; Conclusion and Recommendation 2, p.1 and p.19

“2. The BCUC should find that absent the redirection of Deferral Account Rate Rider (DARR) funds into a Government-directed Return on Equity (ROE), customers would have seen a material rate reduction in F2020, all else being equal. (**Section 4.2**).”

2.1 Please explain this recommendation. Is the recommendation that the Commission Panel should find that if the government had not set requirements for BC Hydro’s return on equity then the F2020 revenue requirement would be smaller to the point where there would have been a rate reduction in F2020? What would the return on equity have been in absence of government direction? Is InterGroup recommending that the Panel make a finding that BC Hydro’s return on equity would have been nil in the absence of a government direction? For what fiscal years? Is it appropriate and desirable for the Panel in the current proceeding to make a finding about what BC Hydro’s ROE would have been in the absence of government direction?

“Conveniently, at the time of the Comprehensive Review, the forecast was that the Cost of Energy deferral account balances recovered via the DARR would be effectively discharged by the end of F2019. In addition, IFRS changes permitted a one-time adjustment to the Heritage Deferral Account balances to reduce the amounts owing from customers by $318.9 million. Finally, the F2019 actuals indicated that conditions were materially improved (largely due to decreased water rentals and IPP purchases from dry conditions and increased Powerex Net Income, offset somewhat by increased market purchases) compared to forecasts at the time of the Comprehensive Review, yielding a net balance owing to customers of $667.7 million. [footnotes omitted]

This set of conditions permitted setting the 5% DARR collection for F2020 down to 0%, offsetting some of the rate increase needed for Government to achieve the desired $712 million ROE for F2020."

2.2 Is InterGroup saying that reducing the DARR to 0% for F2020 was justified and appropriate?

2.3 To be clear, InterGroup's criticism is of the "desired $712 million ROE for F2020," not the setting of the DARR to 0% for F2020, correct?

"Including setting the DARR to 0%, BC Hydro is able to propose rate increases to permit the full F2020 costs to be recovered, including full collection of the desired $712 million ROE, with limited net increase to customer bills…"

2.4 Is InterGroup saying, in effect, that "limited net increase to customer bills" is 'good but not good enough'?

"This means that rate reductions that may have otherwise been mathematically possible with the declining balances in the deferral accounts (notwithstanding the past policy that locked in the DARR at 5%) will not be seen by customers."

2.5 Please explain this statement. What does "notwithstanding the past policy "that locked in the DARR at 5%" mean? Is InterGroup saying here that it would have preferred continuation of the 5% DARR with F2020 rate reductions over a 0% DARR with a rate increase resulting in a "limited net increase to customer bills"? If so, wouldn't this be inconsistent with the stated purpose of the DARR?

"Mitigating this unfortunate outcome for ratepayers, the F2020 and F2021 rate proposals now no longer defer the desired BC Government ROE to future years – the desired ROE of $712 million/year is included in full in the respective annual revenue requirements."

2.6 What exactly is the "unfortunate outcome for ratepayers"? Is InterGroup saying that the "limited net increase to customer bills" is an "unfortunate outcome for ratepayers"?

2.7 In what sense does no longer deferring "the desired BC Government ROE to future years" <u>mitigate</u> an unfortunate outcome? Isn't it InterGroup's view that the ROE for a fiscal year should recovered in the same fiscal year?

3.0 Topic: Uncollectible Rate Smoothing Balance
Reference: Exhibit C-11-11, AMPC Evidence, Pre-Filed Testimony of InterGroup Consultants, Section 4.3, Uncollectible Rate Smoothing Balance, p.20; Conclusion and Recommendation 3, p.2 and p.21

"3. The BCUC should note that, in its capacity as BC Hydro shareholder, the BC Government has elected to retain earnings of $2.2 billion over the period F2015-F2019. While this represents the Government foregoing a further $1.1 billion in returns for this past period, recovery of these amounts would have continued to harm the competitiveness of BC Hydro rates. This issue is now addressed and does not require further reversal or recovery in future (**Section 4.3**).

3.1 For greater certainty, please that "recovery of these amounts" refers to the foregone $1.1 billion in returns for this past period.

3.2 What issue is InterGroup saying has now been addressed: the Government's election to retain earnings of $2.2 billion over the period F2015-F2019, or the Government's decision to forego some $1.1 billion in returns for the past period should be considered final by the Commission, or both?

3.2.1 Is there some doubt that the Government's decision to forego recovery of the $1.1 billion in the Rate Smoothing Regulatory Account is permanent?

3.3 To be clear, is InterGroup saying that it has no current criticism of the $2.2 billion in ROE over the period F2015-F2019?

4.0 Topic: Independently Established Fair Return on Equity
Reference: Exhibit C-11-11, AMPC Evidence, Pre-Filed Testimony of InterGroup Consultants, Section 4.4, Independently Established Fair Return on Equity, p.21; Conclusion and Recommendation 4, p.2 and pp.22-23

"4. The added jurisdiction for the BCUC to set the Return on Equity is a positive development that increases the BCUC's ability scope to consider a wide and appropriate range of factors to assess the fair level of return in future. The BCUC should not be limited in its ability to take into consideration relevant funding source, risk, and shareholder policy issues in making this determination (**Section 4.4**)." [underline added]

4.1 Who is InterGroup saying would limit the BCUC's ability to take into consideration various factors in determining BC Hydro's ROE in the future? Is this recommendation aimed at the Government? Is it in effect advance notice of a view that when the Commission determines BC Hydro's ROE the Commission Panel should take into consideration the listed factors?

5.0 Topic: Independently Established Fair Return on Equity
Reference: Exhibit C-11-11, AMPC Evidence, Pre-Filed Testimony of InterGroup Consultants, Section 4.4, Independently Established Fair Return on Equity, p.21; Conclusion and Recommendations 5 and 6, p.2 and p.23

"5. The BCUC should issue directives out of this proceeding that provide a clear scope for the coming ROE review so as to deal with matters prior to F2022. BC Hydro should be expected to provide materials to respond to this scope (Section 4.4).

6. The BCUC directives to scope the ROE review, in assessing whether the shareholder in fact has access to any material "profit" from an entity that has seen this level of extreme erosion in rate competitiveness, should explicitly take

into account the following factors: 1) the extent to which the “equity” reported is in fact BC Government investment in the utility in the first place, 2) the extent of risk actually borne by the shareholder considering the range of regulatory directives, tools and deferral accounts, and 3) the extent to which an issue caused by Provincial Policy has undermined rate competitiveness (Section 4.4).

5.1 Is InterGroup suggesting that the Panel in the current proceeding should address the factors that should be considered by the future Panel that determines BC Hydro’s ROE?

5.2 Is Recommendation 5 that the Panel should direct BC Hydro to apply for determination of an ROE for F2022 by some date that would allow a decision in time for inclusion of the results in the F2022 revenue requirements? Is the recommendation that the current Panel should direct BC Hydro to address the listed topics in its forthcoming ROE application?

5.3 For clarity, please explain what InterGroup means by the shareholder having “access to any material “profit” from an entity that has seen this level of extreme erosion in rate competitiveness.” Does this mean whether the shareholder is entitled to a return on equity considering the alleged erosion in rate competitiveness?

5.4 What InterGroup’s comments on whether the scope of the anticipated BC Hydro ROE proceeding should be determined by the Commission panel responsible for that proceeding?

“Among the considerations that the BCUC should ensure are scoped into the ROE setting process are the following:
• An assessment of the extent to which the reported “equity” on which the shareholder is to earn a return represents actual investment by the shareholder (e.g., advances by Government at some time in the past to fund BC Hydro’s growth and development). This consideration has been relevant in Manitoba, where there was no specific Government investment in the utility (as shareholder) and the only amounts reported as “retained earnings” were collected from ratepayers under a premise to fund reserves for rate stability.”

5.5 Is InterGroup saying that retained earnings are not equity for the purpose of determining return on equity, for BC Hydro or generally?

5.6 Please explain the relevance of the Manitoba situation in which regulatory model does not include any return on equity to the government shareholder (per p.21)?

“• Review of the extent of risk *actually borne* by the shareholder, particularly given the extensive range of deferral and regulatory accounts which appears unprecedented. To the extent the shareholder may not carry any material risk of loss or variability in earnings, benchmarks need to be considered that are appropriately matched in terms of an extreme low-risk nature of investment.”

5.7 Does InterGroup consider that the Government’s decision to have BC Hydro write off $1.1 billion in the Rate Smoothing Regulatory Account is not an example of a risk borne by BC Hydro’s shareholder?

"• The linkage between the actions of Government as *policymaker* which has undermined the competitiveness of BC Hydro's rates (particularly through EPAs and resource planning directives), and Government as *shareholder* further sustaining these rate levels through inclusion of material ROE amounts in rates. Similar consideration is underway in Newfoundland at the present time, where government decisions and direction (to pursue the Lower Churchill Project and Muskrat Falls generation) are expected to be a material upward rate driver absent mitigation actions. The Newfoundland proceeding, which is still underway, includes review of recommendations against the ability of government to earn return on the investment, provided by independent experts hired by the Newfoundland and Labrador energy regulator. The provincial government in Newfoundland and Labrador has already acknowledged the need to forego shareholder returns as a result of these circumstances." [italics in the original, footnotes omitted]

5.8 Is InterGroup saying that the Panel should determine that in the future proceeding on BC Hydro's return on equity for future test periods the Commission should consider reducing BC Hydro's ROE due to historic legislative and executive actions that are said to have boosted BC Hydro's revenue requirements on an ongoing basis?

5.9 What does InterGroup mean by "Government as *shareholder* further sustaining these rate levels through inclusion of material ROE amounts in rates"?

6.0 Topic: Excessive Regulatory Account Complexity
Reference: Exhibit C-11-11, AMPC Evidence, Pre-Filed Testimony of InterGroup Consultants, Section 4.5, Excessive Regulatory Account Complexity, p.23; Conclusion and Recommendations 7 and, p.2 and p.24

"7. The BCUC should direct BC Hydro to simplify the regulatory and deferral accounts as a long-term priority, to help ensure BC Hydro's costs are fully regulated, and are transparent to the regulator and impacted parties (Section 4.5)."

6.1 Is it InterGroup's view that simplification should be achieved by combining multiple existing regulatory and deferral accounts into a smaller number of such accounts? Or that certain spending that is currently the subject of regulatory or deferral accounts should be removed from deferral treatment and included in the revenue requirement for a given test year?

InterGroup states "While the AG identified a range of concerns, from a rate regulation perspective, the AG's view may not be entirely appropriate. Consider the following:" InterGroup then discusses Government Direction, Balances, Risk, and Complexity.

6.2 Please clarify the points on which InterGroup concurs with the Auditor General's findings, the points on which InterGroup disagrees with Auditor General's findings, and the points that InterGroup believes the Auditor General ought to have addressed but did not.

"8. Concerns tied solely to the magnitude of regulatory account balances should be viewed with caution. Failing to defer charges in a regulatory or deferral account when the costs would otherwise be recorded as current period costs and the benefits arise well into the future (such as with Demand Side Management) would be a highly inferior outcome from the perspective of fair rates and intergenerational equity, regardless of the fact that it might indicate lower deferral balances (Section 4.5)."

6.3 Is the gist of Recommendation 8 and InterGroup's discussion of "Balances" that in InterGroup's opinion the existing state of the balances in BC Hydro's deferral accounts is not a problem, and, specifically, not a problem that should be addressed by accelerating BC Hydro's recovery of deferred balances?

7.0 Topic: Industrial Rate Design and Rebalancing
Reference: Exhibit C-11-11, AMPC Evidence, Pre-Filed Testimony of InterGroup Consultants, Section 4.7, Industrial Rate Design and Rebalancing, p.30; Conclusion and Recommendations 11 and 12, p.2 and p.33

"11. Given current challenges to industrial rate competitiveness and the changes to BC Hydro's cost of energy, Rate Schedule 1823 (Transmission Service) must be examined in the near term, including the design of Tier 1 and 2 rates. Otherwise, the policy intent of the rate is at risk, whereby industrial customers conservation and self-generation will be treated unequally relative to other long-term locked-in marginal-cost-based energy sources, such as Independent Power Producers (Section 4.7).

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 (Section 4.7)."

7.1 What is the problem with the Rate Schedule 1823 two-tier energy rate that requires redesign? Does AMPC want to return to a flat energy rate structure?

7.2 Is the recommendation that the Cost of Service study be updated and reviewed made in the context of a legislative ban on rebalancing? Or is InterGroup (or AMPC) calling for both an updated Cost of Service Study (and Revenue to Cost ratios) and a resumption of the Commission's

7.3