



Allevato Quail & Roy
BARRISTERS AND SOLICITORS

AQR file no. 19-149
Jim Quail
direct (604) 424-8633
email jquail@aqrlaw.ca

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British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

filed online

Dear Mr. Wruck:

Re: British Columbia Utilities Commission – Review of British Columbia Hydro and Power Authority’s Performance Based Regulation Report – Project No. 1599045 – BCUC Staff Consultant Report

These are the clarifying questions submitted by the Movement of United Professionals (MoveUP), pursuant to Order G-326-19.

We note that the Report consists to a large extent of a general sketch of BC Hydro and its regulatory history; a general description and analysis of Performance Based Regulation and its variants; a comparison with Cost of Service Regulation and its variants; and a description of practice and experience in a variety of jurisdictions. Direct analysis of PBR’s specific applicability to BC Hydro, or how to optimize whatever regulatory regime is constructed for the Crown utility, comprises a relatively brief portion of the Report and does not purport to be comprehensive in its observations or prescriptions. That discussion includes suggested approaches to re-structure potential PBR elements to replicate some perceived advantages of PBR that are not necessarily operative otherwise for Hydro. This exercise may appear somewhat Procrustean to some readers.

These questions engage the following stipulated characteristics of BC Hydro, its regulatory history, its legislative and policy context, and its current status, which may distinguish it from typical investor-owned utilities. Not all participants may agree with all of these stipulations, but we are confident that all of them are shared by many:

- a. The absence of profit maximization as an objective of the utility or its shareholder, and of scope for incentives tied to shareholder return.

- b. Executive and management compensation that is constrained by a statutory framework (the *Public Sector Employers Act*).
- c. Displacement of the “regulatory compact” by a statutory framework, and by government control and policy mechanisms which operate both formally (statutes, regulations, directions, directives) and informally (“soft” policy direction).
- d. Absence of a robust recent history and familiarity with regulatory oversight of BC Hydro on the part of the Commission and interveners, and reciprocally by utility management.
- e. An extensive history of government direction, at times imposing uneconomic and imprudent rate-setting and capital project decisions.
- f. A high level of political sensitivity of utility rates, projects and activities.
- g. The problematic nature of traditional DSM activity due to BC Hydro’s persistent energy surplus, where the cost of domestic supply is greater than its market value, and due to a contrary impetus toward low-carbon electrification and associated load growth.
- h. Significant loss of industrial load and the risk that this will continue.
- i. Pent-up pressure to replace or restore aging infrastructure.
- j. A foreseeable sustained increase in the range and amplitude of uncertainties including BC Hydro’s policy and economic environments.

Questions:

1. Which elements of the rationale for PBR are present and which are absent as a result of these characteristics?
2. Given each of these characteristics,
 - 2.1 What are the advantages of COS regulation?
 - 2.2 What are the disadvantages of COS regulation?
 - 2.3 What are the advantages of PBR regulation?
 - 2.4 What are the disadvantages of PBR regulation?

3. How would you design a regulatory framework from scratch that is optimal for BC Hydro given these characteristics? What features would it have? What pitfalls would it avoid?
4. How would you design a regulatory framework to optimize BC Hydro's ability to respond flexibly and creatively to major unforeseen changes, and increased rates of change, in loads, demands, constraints, and societal expectations?
5. To what extent is "PBR for BC Hydro" a solution in search of a rationale?

Yours very truly,

ALLEVATO QUAIL & ROY

A handwritten signature in blue ink, appearing to read "Jim Quail", written over a light blue rectangular background.

per **Jim Quail**
Barrister & Solicitor