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BC HYDRO F2020–F2021 REVENUE REQUIREMENTS EXHIBIT A-35

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Re: British Columbia Hydro and Power Authority – F2020–F2021 Revenue Requirements Application – Project No. 1598990 – Panel Questions to BC Hydro for the Oral Phase of Argument

Further to the above-noted proceeding, enclosed please find the Panel Questions to BC Hydro for the Oral Phase of Argument.

Sincerely,

Original signed by:

Marija Tresoglavic
Acting Commission Secretary

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Enclosed



British Columbia Hydro and Power Authority
F2020-F2021 Revenue Requirements Application

PANEL QUESTIONS TO BC HYDRO AND POWER AUTHORITY FOR THE ORAL PHASE OF ARGUMENT

**1.0 Reference: DSM Expenditure Schedule
BC Hydro Final Argument, pp. 233, 254; BC Hydro Reply Argument, p. 128**

On page 233 of its Final Argument, British Columbia Hydro and Power Authority (BC Hydro) submits:

BC Hydro has submitted its DSM Plan with the intention of carrying it out as designed. However, BC Hydro retains discretion to reallocate its DSM costs during the Test Period, and this ability is important for the company and customers.

BC Hydro's ability under the UCA to reallocate funds is clear based on section 44.2 of the UCA, which permits BC Hydro to file a statement of DSM expenditures that it "anticipates making". Thus, the BCUC may accept DSM expenditures on a forecast basis, and, similar to BC Hydro's other forecast costs over the Test Period, actual expenditures on DSM may vary from forecast. Acceptance of an expenditure schedule of anticipated DSM spending indicates that the BCUC has found the expenditure schedule, as presented, to be in the public interest. If prudently executed as described in the expenditure schedule, it is reasonable to expect that the expenditures can be recovered through rates.

On page 128 of its Reply Argument, BC Hydro submits:

BCSEA agrees that it is important for BC Hydro to have flexibility to respond to challenges and opportunities and supports BC Hydro's legal position that it retains discretion to implement transfers. In the alternative, BCSEA says that it supports flexible rules for transfers such as those implemented for FortisBC Inc., which includes transfers of up to 25% of budget from one program to another subject to reporting in the DSM annual report. BC Hydro submits that even a 25% transfer limit is not warranted. Limits on BC Hydro's discretion to respond to opportunities and challenges during a test period can only be detrimental to customers. BC Hydro has continually demonstrated that it carries out its DSM initiatives prudently and effectively. BC Hydro should maintain its discretion to do so.

1.1 Please clarify BC Hydro's position on whether the *Utilities Commission Act* (UCA) gives the British Columbia Utilities Commission (BCUC) the authority to put any limits on how much BC Hydro can reallocate with respect to its accepted Demand Side Management (DSM) expenditures during the test period. Why or why not?

With respect to the impact of the COVID-19 Pandemic, on page 254 of its Final Argument, BC Hydro submits:

The extent and duration of the impacts of the pandemic on BC Hydro's revenues and costs are uncertain. However, BC Hydro's regulatory accounts will mitigate much of the

uncertainty caused by the pandemic by capturing variances from forecast which can then be returned to or recovered from customers in the next test period in accordance with existing BCUC orders.

[...]

Nonetheless, in this unprecedented situation, it is impossible for BC Hydro or any party to foresee all potential impacts of the pandemic. Therefore, if any particular approval from the BCUC is required over the remainder of the Test Period due to the pandemic, BC Hydro will bring forward requests to the BCUC in separate applications as needed. Filing such requests separately from the current RRA proceeding will enable the BCUC to consider them in a more expedited manner reflective of the COVID-19 crisis.

- 1.2 Please discuss whether BC Hydro anticipates the COVID-19 Pandemic to result in over or underspending of its DSM forecast during the test period.
- 1.3 Given that the DSM regulatory account is a benefit matching account rather than a variance account, please explain whether any over or underspending of DSM expenditures during the current test period resulting from the COVID-19 Pandemic would be recovered or returned to customers. If yes, please explain how. If not, please explain why this would not be necessary.

**2.0 Reference: Cost of Energy
BC Hydro Final Argument, pp. 42, 43, 44; BC Hydro Reply Argument, pp. 35, 36**

On page 42 to 43 of its Final Argument, BC Hydro states that “Electricity Purchases or Surplus Sales are undertaken to both cost-effectively meet load requirements and to take advantage of trade opportunities.” BC Hydro also provides the following testimony from Ms. Matthews in its Final Argument:

So BC Hydro wants to import or export from the system when we have a surplus, and we also want to import to meet our load, whereas what Powerex does is that they import for the purpose of reselling later to make trade revenue. So the purpose of what the two companies do are quite different. They are trying to [maximize] trade income, we’re trying to maximize the surplus when we have it, and sell it to Powerex to sell into the market, and then we’re also buying when we need it to meet our domestic needs, which could be for a number of reasons. [Emphasis Added]

On page 44 of its Final Argument, BC Hydro states:

While different imports or exports to/from the BC Hydro system may occur for different reasons, the overall objective is the same: to meet load first while maximizing the expected value of the energy supply portfolio to ratepayers, within a range of outcomes. BC Hydro often refers to this objective as “maximizing consolidated net revenue”, but the implicit starting point phraseology is that domestic load is being met first. This is evident, for instance, in Ms. Matthews’ response as to why she considers meeting domestic load and maximizing the expected value for ratepayers to be complementary, rather than conflicting, objectives:

“No, I don’t think they are, because the – I guess within the energy studies the first thing you have to do is meet load, and then how we’re meeting it is to then maximize the consolidated net revenue. So I don’t see that as a conflict. It’s more like meeting the load is a given as part of the modeling and it’s part of how we operate.” [Emphasis Added]

On pages 35 to 36 of its Reply Argument, BC Hydro states that “[t]he Energy Studies do not optimize trading activities to the detriment of domestic needs. [...] the Energy Studies optimize the consolidated (i.e. domestic and trade) net revenues.”

In footnote 146, BC Hydro provides Ms. Matthew’s testimony, which explains that “[i]n general, the optimal operation depends on the relationship between system storage levels, forecast loads, inflows, and current and future market prices.”

2.1 Please clarify how it is possible to maximize the value of surplus energy while maximizing Powerex’s trade income. Please provide a concrete historical example of this/these scenario(s).

**3.0 Reference: Property Purchases for Future Substations
BC Hydro Reply Argument, pp. 70, 71**

With respect to Association of Major Power Customers of BC’s (AMPC) submission that including properties in rate base before the substations are developed is “inconsistent with current regulation principles,” BC Hydro submits on page 70 of its Reply Argument that BC Hydro’s “accounting treatment in this regard have no bearing on matters before the BCUC in this proceeding” as amounts in rate base do not impact BC Hydro’s net income.

In response to British Columbia Old Age Pensioners’ Organization et al.’s (BCOAPO) argument that BC Hydro should be directed to establish a regulatory account to defer carrying costs until the Vancouver substation properties are eligible for capitalization, BC Hydro submits on page 71 of its Reply Argument that “carrying costs are not material enough to warrant the establishment of a deferral account for each property.” Furthermore, BC Hydro submits that the carrying costs for the East Vancouver property (for the new Murrin substation) are minimized as the property is currently leased to a tenant.

3.1 Given that Direction No. 8 states that rate base includes “the amount listed as property, plant and equipment in service, less accumulated amortization,” please clarify whether the inclusion of these properties in rate base prior to the development of the substations is in accordance with Direction No. 8. [Emphasis added]

3.2 Please clarify what BC Hydro means when it states that the “carrying costs are not material enough to warrant the establishment of a deferral account for each property.” Please quantify BC Hydro’s view of materiality under these circumstances.

**4.0 Reference: Uniform System of Accounts
Transcript Volume 7, p. 1014, Lines 20 to 26, p. 1015, Lines 1 to 7; BC Hydro Final
Argument, pp. 106, 107**

During the Oral Hearing, BC Hydro noted the cost in terms of human effort to restart and maintain the process of using the BCUC’s Uniform System of Accounts, specifically, Mr. Layton stated:

I think in terms of staff effort, I think we would think that it would be a fraction of one FTE. So it's not a full-time job, clearly. I think there would be some initial effort to get -- if we restarted that process there would probably be some initial kind of startup effort, if I can use that phrase, but moving forward it would be a portion, probable less than half of an FTE. We wouldn't, I don't think -- I think we would not want to hire a new FTE to do this work. I think that we would want to look at our existing complement of FTEs and decide what other thing could we decide not to do or -- so in other words we would layer it on to someone's responsibilities and choose not to do something else.¹

¹ Transcript Volume 7, p. 1014, Lines 20 to 26, P. 1015, Lines 1 to 7.

On pages 106 to 107 of its Final Argument, BC Hydro submits:

While Brattle was able to use the BCUC’s Uniform System of Accounts to inform its benchmarking study, the BCUC’s Uniform System of Accounts is different from the FERC Uniform System of Accounts, which was the source of the peer group data used in the Brattle Report.

BC Hydro noted that if the BCUC and interveners found the Brattle Report valuable, then reporting based on the FERC Uniform System of Accounts would likely provide greater value, going forward, compared to reporting based on the BCUC Uniform System of Accounts. BC Hydro explained that there would be some initial effort to set-up a Uniform System of Accounts reporting framework and to manage this work on an ongoing basis.

However, as Mr. O’Riley explained, there have been many opportunities put forward by interveners and, in aggregate, the costs of these opportunities add up and push against BC Hydro’s ability to keep rates affordable and competitive. The additional costs of presenting BC Hydro’s accounts according to the FERC Uniform System of Accounts should be evaluated within this context. BC Hydro submits that the value of taking this step is insufficient at the present time to justify a directive that would remove the ability of management to prioritize this work against other pressures, as appropriate.

- 4.1 Please provide the incremental cost of implementing and maintaining the FERC Uniform System of Accounts for regulatory and benchmarking purposes compared to using the BCUC Uniform System of Accounts.

**5.0 Reference: Vegetation Inspection of Transmission Lines
Exhibit C9-14, pp. 2, 3; Transcript Volume 5, p. 381, Lines 4 to 14; Transcript Volume 13, p. 2517, Lines 9 to 14;**

On page 108 of the SAP Inquiry Report, submitted in Exhibit C9-14, the BCUC stated:

As discussed in Section 8 of the Report, section 43(1) of the UCA obligates a utility to “(a) answer specifically all questions of the commission, and (b) provide to the commission the information the commission requires.” This suggests that ensuring a complete body of information for any regulatory decision(s) is a shared responsibility: for the BCUC to ask the right questions and adequately set out its information requirements; and for BC Hydro to provide the accurate, complete and transparent information in response.

As previously noted by the [BCUC], there is a fundamental information imbalance between what BC Hydro knows of its own internal operations/decisions and what portion(s) of that it chooses to pass on to the BCUC. Thus, situations arise where the BCUC “doesn’t know what it doesn’t know.” The [BCUC] has found instances that it characterizes as a culture of reticence to inform the BCUC when there was doubt as to the proper level of disclosure.

The 2016 Review Report includes the following recommendation: “By integrating regulatory expectations as a part of best business practice, all business groups will hopefully become more proactive in information sharing and producing material that would be necessary in a process.”

Recommendation: BC Hydro should approach decisions regarding information disclosure to the BCUC from a perspective that is informed by “if in doubt, provide the

information.”

During an exchange with the Commercial Energy Consumers Association of British Columbia (CEC) at the Oral Hearing, Mr. O’Riley stated:

So, we have worked hard to address this finding, particularly the cultural finding, and part of that is how we’ve approached this proceeding and there was training involved, there was lots of discussion around tone and culture. As I said earlier, myself and the executives, we’ve read -- I read thousands of information requests – it seemed like thousands, maybe thousands of pages – in order to ensure that throughout the process we were being open and transparent and we made changes as a result of that review.²

During Mr. Kumar’s testimony at the Oral Hearing, Mr. Kumar described BC Hydro’s vegetation management practices in a generally favourable light. In particular, he stated that BC Hydro’s level of vegetation inspections exceeded the Mandatory Reliability Standards (MRS) requirements:

If you look at the transmission level of inspections, we actually exceed what MRS requires us to undertake. According to those standards it has to be once a year. For us it’s a minimum of two times a year or three times for the most critical ones.³

5.1 Given that by Order R-18-19 dated September 9, 2019, the BCUC had approved a Compliance Violation Investigation of BC Hydro with respect to a number of vegetation-related events, please explain how the testimony regarding vegetation management follows the BCUC’s finding and recommendation in the SAP Inquiry regarding BC Hydro’s approach to information disclosure.

**6.0 Reference: BCUC Advance Assessment of Applicability of the GRR
Transcript Volume 6, p. 743, Lines 15 to 26; p. 744, Lines 1 to 7; BC Hydro Final
Argument, pp. 143, 144**

During an exchange between Panel Chair Morton and Mr. O’Riley at the Oral Hearing, Mr. O’Riley stated that he was not averse to the idea of an advance ruling by the BCUC regarding the applicability of the Greenhouse Gas Reduction Regulation (GRR):

You know, I don't think we'd be adverse. I mean, the idea of an advanced ruling seems to make sense to me. I know it felt like a little bit of talking past each other in this PREZ [*sic*] situation through the IRs, about whether it was or wasn't and I think we could have been more clear in the documentation about that.

And one of the things that, you know, I can assure you we did do the legal review on that, but the legal review doesn't come out in the documentation inherently and one of the things I was suggesting to our team is more of a management decision statement that said, "This is why we think it is," and could refer to the legal advice but not restate it and then we have that documentation. And, you know, I think the idea of getting an advanced ruling is in the same vein and I'm absolutely not adverse to that and I wasn't actually aware of the practice in other utilities, so we'll absolutely look at that.⁴

On pages 143 and 144 of its Final Argument, BC Hydro submits that it has identified the Bear Mountain Terminal to Dawson Creek Transmission Voltage Conversion project and the North Montney Transmission Development project as projects that may qualify as prescribed undertakings pursuant to

² Transcript Volume 5, p. 381, Lines 4 to 14.

³ Transcript Volume 13, p. 2517, Lines 9 to 14.

⁴ Transcript Volume 6, p. 743, Lines 15 to 26; p. 744, Lines 1 to 7.

section 18 of the *Clean Energy Act*. BC Hydro also noted that these two projects were advanced as explain projects.

On page 144 of its Final Argument, BC Hydro submits:

Both these projects are referenced in the MOU [memorandum of understanding] as projects that the Canada-British Columbia Clean Power Planning Committee will advance. In light of the purpose of these two projects, they may qualify as prescribed undertakings pursuant to section 18 of the *Clean Energy Act*, and as such may be exempt from Part 3 of the UCA.

Chairman Morton commented during the hearing that it would be useful if there was a mechanism for the BCUC assess to the applicability of the GGRR in advance. Mr. O'Riley expressed openness to look at the issue. BC Hydro confirms that, following this proceeding, it will be considering the legal and practical issues around Chairman Morton's question and will initiate further discussions with BCUC Staff to explore potential options.

- 6.1 Please discuss the legal and practical issues regarding an advance assessment by the BCUC that BC Hydro is planning to consider.
- 6.2 Please clarify when BC Hydro plans to initiate further discussions with BCUC staff.
- 6.3 Please explain whether BC Hydro plans to bring the Bear Mountain Terminal to Dawson Creek Transmission Voltage Conversion project and the North Montney Transmission Development project to the BCUC for an advance assessment of the applicability of the GGRR.
 - 6.3.1 If so, please discuss when BC Hydro plans to bring these two projects to the BCUC for an advance assessment. If not, please discuss why not.

**7.0 Reference: Project Write-off Costs
Transcript Volume 7, p. 1003, Lines 13 to 26, p. 1004, Lines 1 to 5; BC Hydro Reply
Argument, p. 78**

During an exchange with BCOAPO at the Oral Hearing, BC Hydro confirmed that project write-offs were a shareholder cost in the past, but in the current test period it is proposing that project write-offs up to the budgeted amount be a ratepayer cost.⁵ Mr. Layton then goes on to explain why BC Hydro is proposing this change:

So I think I'd refer back to the page where we started with, on page 8-21 and you can see starting on line 7 some of the logic here. And I think the way I would summarize it is that sometimes write-offs are a very prudent decision to make. In other words, sometimes it makes sense to stop a project and that can be part of a very mature project management practice. And that's what we've seen, that rather than blindly go forward with a project that doesn't make sense to continue, it sometimes makes very good sense to stop. And when we make those kind of prudent decisions, write-offs can happen. And so our proposal is to have a budget amount for that. We think, again, those are prudently incurred costs and, therefore, the ratepayers should be willing to pay for a reasonable amount there. As I said, amounts above and beyond that we propose to remain to the account of the shareholder.

On page 78 of its Reply Argument, BC Hydro submits:

⁵ Transcript Volume 7, p. 1003, Lines 13 to 26, p. 1004, Lines 1 to 5

Fourth, the existence of a presumption of prudence is a moot point here. BC Hydro has demonstrated that project write-offs can be the result of effective capital planning processes. BC Hydro's mature capital planning and delivery processes ensure that projects are periodically reevaluated based on the latest information and cancelled where reasonable to do so. Given BC Hydro's large capital program, such practices should be encouraged and the consequent costs should be recoverable from customers.

[...]

Given the size and complexity of BC Hydro's system, and continually changing circumstances, project write offs are an inevitable part of providing safe, reliable and cost effective service to customers. Therefore, it is just and reasonable for BC Hydro to recover its forecast of project write-off costs over the Test Period.

- 7.1 Please clarify why BC Hydro is now proposing to budget for project write-offs and have it recoverable from ratepayers when in the past its practice was to have these costs be borne by its shareholder. Was there a change in BC Hydro's capital planning and delivery process that prompted this change?