



July 6, 2020

Sent via eFile

**BC HYDRO F2020–F2021
REVENUE REQUIREMENTS EXHIBIT A-37**

Mr. Fred James
Chief Regulatory Officer
Regulatory & Rates Group
British Columbia Hydro and Power Authority
16th Floor - 333 Dunsmuir Street
Vancouver, BC V6B 5R3
bhydroregulatorygroup@bhydro.com

Re: British Columbia Hydro and Power Authority – F2020–F2021 Revenue Requirements Application – Project No. 1598990 – Panel Request for Comments

Dear Mr. James:

The Panel continues to be concerned about the timing of British Columbia Hydro and Power Authority's (BC Hydro) revenue requirements applications. It is now approximately 16 months into the 24-month test period and will likely be 17 to 18 months into the test period by the time the final decision is issued for this proceeding. If there are any adjustments made to spending as a result of the final decision, it will be very difficult for BC Hydro to make those adjustments for the time remaining and likely impossible to make them retroactively. Similarly, if there are adjustments to interim rates and those rate impacts are applied to the remaining few months, their impact will be magnified, compared to the effect of an adjustment much earlier in the period.

Not allowing sufficient time to review a revenue requirements application (RRA) contributes to regulatory inefficiency and diminishes the effective role of the regulator, thereby putting both the ratepayer and the shareholder at risk, as noted above.

This issue was discussed at the oral hearing:

MR. KEEN: Q You mentioned earlier, sir, in terms of test period budgets, that the budgeting process for the next revenue requirement application begins soon. Do you recall that?

MR. O'RILEY: A Yes.

MR. KEEN: Q And when are you currently tracking to file the next revenue requirement application?

MR. O'RILEY: A Well, this test period goes from -- well, until March of 2021, which is just over a year from now, and we typically would file an application for the next year in February of that year. So, February, 2021, I think, would be when we would typically file.¹

.....

¹ Transcript Volume 5, p. 425

THE CHAIRPERSON: Right, okay, thanks. I have a question probably for you, Mr. O'Riley, but please feel free to chime in, Mr. Wong. You submitted this application in February of last year, and as you suggested yesterday, the decision hopefully will be out let's say first quarter of next fiscal year. So that take us into the second half of the test period. If this had been a one-year test period, then it would have probably not been out before the end of the test period. If it was three-year test period, well, it would be at least within the first half. And I recognize that neither of us knows what the decision is going to say, but presumably there would be things in that decision that would be helpful to have sooner, rather than later, in the test period. So would you say it's fair to say this is not an optimal situation or not even a good situation to have this kind of trajectory?

MR. O'RILEY: A Well, it's not ideal for sure. I would absolutely agree with you. It's the -- I would think -- one way to think about it is it's a longer -- it's part of a longer process, right? I think what's really important for us is that we get a succession of these things behind us. You know, in the past I think they were done more in a one-year time frame, as I recall.

THE CHAIRPERSON: Three years, perhaps, yes.

MR. O'RILEY: A Yeah. Well, the process itself took more like a year and you know, if we could stretch it out to do a three-year window, a three year test period, well then you're starting to get some time, right? And another way of looking at the value of the process may not be in the value of the individual process or to some degree it is, but it's in the incremental value as you carry this on over multiple times, right? So, you know, you can see in the discussions here how there's been kind of fits and starts in processes over time, and things lost along the way. We've had some examples of that in the last couple of days. So I would see this process as building upon -- the next one will build upon this one, and we will improve over time.

THE CHAIRPERSON: I guess I would have a more specific question, although I appreciate your answer, I don't disagree with what you're saying. But a specific question would be, is there any way that an application could be made earlier? So that we could have a little more lead time before the test period started? And then we wouldn't need, perhaps -- and if we could shorten the first part of the process up, we wouldn't need the evidentiary update?

MR. O'RILEY: A Well, I think that is a great suggestion. I mean for whatever -- we do struggle separating the application from the provincial financial cycle, right? And Mr. Wong can probably speak to that, and that's why we've tended to apply in February, around the budget time. So, but that is -- do you have anything to add to that?

MR. WONG: A I think it's a good suggestion, something we should take a look at. We certainly did this one in alignment with the release of phase 1, comprehensive review, and the timing and that was what the budget for the province went on a similar time. So, I understand the February timeframe when we put this out. Certainly going forward, we should -- I will take that under advisement and think about that, and think about how we can shorten the cycle.²

The Panel appreciates the testimony of Mr. O'Reilly and Mr. Wong acknowledging this issue and indicating that they are prepared to consider ways to shorten the application cycle.

The Panel is of the view that it is necessary to take steps to realign the RRA process to address the issues of regulatory efficiency and ratepayer risk. Accordingly, the Panel invites parties to provide submissions on the following approach to setting rates for F2022 and beyond:

² Transcript 6, pp. 737–739.

1. Forgoing a full cost of service review for F2022. This would provide enough time for BC Hydro to prepare a comprehensive, timely application for F2023.
2. Rates for F2022 - the “Gap Year” - can be set, upon application by BC Hydro, based on some other mechanism, such as an inflation factor applied to F2020 rates or costs.
3. Depending upon the outcome of the Performance Based Ratemaking (PBR) process, F2023 could serve as the base year for future PBR years. If so, an application for the specifics of the PBR rate setting mechanism for future years (i.e. F2024 onward) could be filed separately from the F2023 RRA.
4. In a cost of service regime, if it is considered in the interests of regulatory efficiency and if it doesn't cause material delay in the filing of the F2023 RRA, the F2023 RRA could be combined with one or more additional test years – i.e. F2023–F2024 or even F2023–F2025.

The Panel anticipates that BC Hydro would submit an application for F2022 rates by no later than December of 2020. This application can be reviewed in a manner that is similar to FortisBC's Annual Review of Rates.

The Panel further anticipates that BC Hydro would submit its application for F2023 rates (and possible additional years) by no later than mid 2021. The Panel appreciates that BC Hydro will need a timely resolution of the PBR process in order to determine whether it will be in a PBR or cost of service regime post F2023. If the timing does not work, implementation of the PBR regime (if there is to be one) could be postponed to F2024. The Panel invites submissions on this aspect of the timing.

The Panel recognizes that the suggestion provided in number 1 above potentially introduces risk to both ratepayers and BC Hydro. However, this risk must be balanced against the risk of approving expenditures and setting permanent rates after the fact. The Panel invites parties to provide comment on how rates should be set, in a manner that is both efficient and reduces risk to the extent possible. For example, some costs can be increased by an inflation factor; temporary deferral accounts may be required to ensure that any risk is appropriately balanced between the shareholder and ratepayers.

Further, the Panel recognizes the uncertainty caused by the COVID-19 pandemic and acknowledges the impact of this uncertainty on load forecast, collections and costs. While the Panel agrees this is undesirable and very challenging, it is unavoidable. Planning for the future, including prospective rate setting, cannot be put on hold. We must move forward in the best way we can.

The Panel requests that written submissions be provided according to the following regulatory timetable:

Action	Date (2020)
BC Hydro Comments	Friday, July 24
Intervener Comments	Friday, August 14
BC Hydro Reply	Friday, August 21

Sincerely,

Original signed by:

Marija Tresoglavic
Acting Commission Secretary

TL/jo