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August 14, 2020

VIA ELECTRONIC MAIL

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Attention: Marija Tresoglavic, Acting Commission Secretary

Dear Sirs/Mesdames:

Re: British Columbia Hydro and Power Authority ("BC Hydro") F2020 to F2021 Revenue Requirements Application ~ Project No. 1598990

We are counsel to the Commercial Energy Consumers Association of British Columbia (the "**CEC**"). Please find attached the CEC's submissions in response to the questions posed by the Panel in Exhibit A-37.

All of which is respectfully submitted.

Yours truly,

OWEN BIRD LAW CORPORATION

Christopher P. Weafer

CPW/jj
cc: CEC
cc: BC Hydro
cc: Registered Interveners

COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BRITISH COLUMBIA

CEC Response to Questions posed by Panel in Exhibit A-37

British Columbia Hydro and Power Authority ("BC Hydro") F2020 to F2021 Revenue Requirements Application ~ Project No. 1598990

August 14, 2020

The Commercial Energy Association of BC (the "**CEC**") represents the interests of ratepayers consuming energy under commercial tariffs in applications before the BC Utilities Commission ("**BCUC**" or "**Commission**").

Pursuant to the BC Hydro and Power Authority ("**BC Hydro**") Fiscal 2020 to Fiscal 2021 Revenue Requirements Application ("**RRA**") proceeding, the Commission requested intervener submissions on a proposed approach to the timing of BC Hydro's future RRAs as outlined in Exhibit A-37.

The CEC provides the following submissions for the Commission's review and consideration.

SUBMISSIONS

In the Commission Panel's (the "**Panel**") request for submissions the BCUC raises concerns regarding the cycle length and timing of BC Hydro's RRA. The Panel states:

> "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:
>
> 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."[1]

BC Hydro provided its reply in Exhibit B-59 on July 24, 2020.

While BC Hydro is largely supportive of the BCUC's proposal they note that there is significant uncertainty with respect to COVID-19 and that there is a requirement for streamlining to allow for an expeditious resolution. They also point to timing and resource issues if the 2022 RRA is conducted during a similar time frame as the preparation for the F2023 RRA. BC Hydro also suggests that the use of an inflation-based mechanism would only be appropriate for certain cost items.

BC Hydro states:

> "A more realistic alternative would be to use a cost of service approach focused on incremental requirements, relative to what the BCUC will have just finished reviewing in the current proceeding, for specific items that will be outlined in the application. For example, again with respect to operating costs, we would identify incremental needs for specific areas such as those mentioned above and could propose an inflation-based approach for other areas. The current Application presented a "ground up" justification for BC Hydro's operating costs; if there are underlying concerns about the current budgets we would expect the BCUC would be identifying those in its pending decision on the fiscal 2020-2021 Application. This would allow BC Hydro's fiscal 2022 RRA to focus primarily on important areas where BC Hydro is experiencing cost pressures."[2]

and,

> "With these considerations in mind, BC Hydro supports:
>
> - the BCUC including in its decision an acknowledgement that the fiscal 2022 RRA to be filed by BC Hydro will need to be less detailed than the Application filed in the current proceeding, with a focus on what has changed;
>
> - an efficient process for the fiscal 2022 RRA with fewer procedural steps (akin to the FortisBC Annual Review process or, potentially a Negotiated Settlement Process or Streamlined Review Process), occurring over a compressed time period, with a focused scoping order to ensure that this type of process if feasible; and
>
> - the BCUC refraining from issuing a recommendation on the timing of an application for rates in fiscal 2023 and beyond until the timeline for the review of the fiscal 2022 application has been established."[3]

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[1] Exhibit A-37 at pages 2-3.

[2] Exhibit B-59 at page 2.

[3] Exhibit B-59 at page 3.

The CEC agrees that future BC Hydro RRAs should include less detail than the current RRA proceeding, which included significant volumes of information that were particularly helpful for in-depth scrutiny and understanding by interveners.

In the CEC's view there is presently an opportunity for the Commission to establish a new format and underlying process for BC Hydro RRAs, by using the F2022 RRA as a Pilot for new concepts.

The CEC provides the following responses to the Commission's proposal below:

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.

The CEC considers that the F2022 RRA could serve as an important pilot year for the development of a significantly more refined, and valuable, RRA model.

The CEC submits that the F2022 RRA should be developed in such a way as to extract sections of common, stable, 'standing' information from the Application. The focus of the F2022 RRA could instead be on the review of key cost/revenue directions and reviewable business metrics (inputs, throughputs and outcomes.)

This would allow the RRA proceeding to develop into a review of what is changing and what the costs/revenues and reviewable business are for the various 'areas' (business unit or cost/revenue function).

The CEC proposes that significant volumes of information presented in the F2020-F2022 RRA, which are generally stable, applicable to ongoing RRAs, and largely descriptive rather than bearing on the heart of cost justification issues, could be set aside as 'standing' background information. This could be maintained on an ongoing basis or updated as conditions change, and could be available to the Commission and interveners during the RRA or at other times as needed, but not specifically included in the RRA. This would serve to reduce the evidentiary record and focus the RRA on the incremental change issues that can be appropriately critiqued by the BCUC and interveners.

As an example, BC Hydro provides regular reporting of its DSM spending and this does not need to be duplicated in the RRA.

The CEC expects that BC Hydro could, at relatively low cost, utilize much of its evidence from the F2019-F2021 RRA to create such a set of 'standing documents' for each area.

The CEC proposes that the RRA instead include high level, quantitative reviewable business metrics for each 'area' with minimal description-type information or explanations. Such metrics can serve to provide a highly visible and quantifiable measure of the utility's performance and direction over time. Identifying the reviewable business metrics for each business 'area' should focus on high level analysis of costs/revenues versus reviewable business metric performance.

The CEC expects that such reviewable business metrics would exist at a more granular level and those provided in the Annual Service Plan, but should avoid micromanaging of departments and functions.

The following provides a brief description of how each Chapter might be treated.

Chapter 1: Executive Summary

The CEC expects that the Executive Summary would continue to provide an overview of the key application issues.

Chapter 2: Legal and Regulatory Framework

The CEC expects that some of the Legal and Regulatory Framework items such as Demand Side Measures regulation, or various directions that are not new but considered in every RRA could be captured in 'standing documents'.

The focus in the RRA could be on the key regulations that are new or of particular consequence to issues arising from the application.

Chapter 3: Load and Revenue Forecast Information

In the CEC's view, the load forecast information detail can be substantially reduced if load forecasts are updated periodically rather than for each year.

The CEC considers that the Load Forecast may not change significantly from RRA period to RRA period depending on RRA frequency, and certain levels of detail are not necessary for a sufficient review, if BC Hydro has the flexibility to match supply and demand on an ongoing basis.

Additionally, the CEC notes that BC Hydro's Integrated Resource Plan (IRP) could move in a direction of enabling matching supply and demand more closely, and could reduce the need for frequent forecasting review.

The CEC expects that information in the RRA could focus on:

- Issues to be managed with a range of flexibility;
- Key forecast trends by rate class; and
- Changes from prior forecasts with rationale.

Chapter 4: Cost of Energy

The CEC considers that the Cost of Energy is an important section for review and that the cost of market and IPP energy is of significance and results in trade-offs, and therefore should be examined in the RRA.

However, there may be certain component parts of the Cost of Energy which have been reviewed elsewhere or are generally beyond the control of BC Hydro and could be captured in 'standing type' information. For instance, discussions of the manner in which water rentals are calculated could be usefully held in 'standing information' and need not be included in the RRA.

Chapter 5: Operating Costs

The CEC considers that the Operating Costs chapter could be significantly reduced and refined to provide a much more useful and focused set of information for review.

The CEC recommends keeping the high-level topic area, but removing much of the detail that does not change and is less useful for critique and decision-making by the Commission and interveners. The CEC notes that each Business Group has a significant write up and is of the view that much of background information could be maintained in 'standing information'.

Similarly, much of the detail included cannot be assessed as being prudent or imprudent. For instance, the Safety Business Group discussion is 50 pages and includes detail on each department and written break-downs of the FTE roles within each department. This is repeated for each department. The CEC submits that such information is not necessary to a critical examination of the effectiveness of the safety function for the utility in an RRA and results in an excessive evidentiary record.

In the CEC's view it could be appropriate to develop a set of metrics for each business group which summarizes key information and performance objectives. Once these are established and accepted as useful, then the variances or directional change becomes the relevant area for review.

For example, in Chapter 5F, Operating Costs – People, Customer, Corporate Affairs Business Group, Figure 5F1, charts and graphics on 5F5 and 5F6 provide useful information and the opportunity to review historical costs, but the Overview of Operating Costs and FTEs in Table 5F-4 at page 5F-10, becomes significantly less useful if it is largely static. If the information is contained in 'standing documents' these could be available for the Commission or interveners as needed.

Instead, it would be useful to have an understanding of certain metrics such as the number of customers served vs the number of FTEs; or the number and value of contracts administered vs the cost for the business group of managing contracts.

Once an established set of metrics is deemed useful then the only requirement is for explanations from each department for the variances occurring.

Chapter 6: Capital

The CEC recommends that the review of Capital be removed from the RRA altogether and replaced with a Project summary list, as in the current RRA.

In the CEC's view capital is and should be reviewed on an ongoing basis through other capital oversight proceedings such as CPCNs and project progress reviews.

Chapter 7: Regulatory Accounts

The CEC considers that information related to balances and incoming and outgoing transactions could form the basis of the RRA record, while descriptions and history could be retained on an ongoing basis in 'standing information' based profiles.

Chapter 8: Other Revenue Requirements

The CEC considers that information related to capital structure and return on equity could be retained in standing information unless there is a particular issue for resolution.

Chapter 9: Transmission

The CEC expects that certain information such as allocation of operating costs to transmission could be largely kept outside of the RRA, and that these may be appropriately examined in a cost of service allocation ("**COSA**") study. Similarly, evidence around the FortisBC Wheeling Agreement revenue may be better left outside the RRA.

Metrics could be developed to address certain issues such as the overall costs assigned to transmission and the number of customers and amount of energy sold.

Chapter 10: Demand Side Management

The CEC considers that DSM could largely be removed as it can be reviewed elsewhere in detail.

Chapter 11: Performance Based Regulation

In the CEC's view this was appropriately removed as a separate topic from the larger RRA review.

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.

The CEC would not support the general use of inflation for a proposed 'Gap Year'.

The CEC is of the view that BC Hydro has the information available to determine the appropriate means for adjusting its costs/revenues, and not all are directly related to inflation.

The CEC submits that the increases or decreases required should be reflected in reviewable business metrics as suggested for the F2022 Pilot.

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.

As noted above, the CEC recommends that the Commission develop a test year for F2022 enabling the development and use of reviewable business metrics to assess the utility performance and direction.

Additionally, the CEC considers that it would be inappropriate and extremely difficult to select F2023 as a base year for PBR based on the current types of economic modelling.

The CEC submits that the current forms of PBR do not provide a good means for evaluation, and the issues would be exacerbated at this time due to the significant uncertainty associated with COVID-19.

Under PBR theory, the PBR base years should be generally reflective of 'average' costs and expenditures, and the PBR itself is most appropriate when stable and similar circumstances are anticipated over the term and can be directly related to the base year.

The CEC submits that even if the Commission chooses to endorse PBR style of ratemaking it would be appropriate to defer a discussion of PBR and of the appropriate 'base year' until the effects of COVID-19 are more predictable.

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 CEC supports the development of a Pilot for F2022. The CEC would not oppose extending a F2022 Pilot for an additional year.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

David Craig

David Craig, Consultant for the Commercial Energy Consumers Association of British Columbia

Christopher P. Weafer, Counsel for the Commercial Energy Consumers Association of British Columbia