

COMMENTS RESPECTING BC UTILITIES COMMISSION PANEL QUESTIONS IN EXHIBITS A-37 AND A-38

**British Columbia Hydro and Power Authority (“BC Hydro”) F2020 to F2021 Revenue Requirements Application
Project No. 1598990**

SUBMITTED BY DAVID INCE

AUGUST 14, 2020

This intervenor is responding to the Panel request for comments contained in Exhibit A-37 and Exhibit A-38.

Paraphrasing the 4 questions raised by the Commission in Exhibit A-37:

1. Would it be appropriate to forgo a full cost of service review for F2022, thereby potentially providing BC Hydro to prepare a comprehensive, timely application for F2023?
2. Should rates for F2022 (the “Gap Year”) 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, should F2023 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 the interests of regulatory efficiency and if it doesn’t cause material delay in the filing of the F2023 RRA, should F2023 RRA could be combined with one or more additional test years – i.e. F2023–F2024 or even F2023–F2025?

As background, this intervenor is in general agreement with the suggestions made by BC Hydro in Exhibit B-59. The current economic and public health landscape is unprecedented, resulting in a very wide range of uncertainty with respect to BC Hydro demands, revenues, plus the possibility for major customer attrition and associated problems in credit and collections. The fallout from COVID-19 is the ‘elephant in the room’, and needs to be foremost in the timing and focus of upcoming proceedings.

BC Hydro has provided an advance indication of the demand and therefore revenue impacts of the pandemic in the following release:

https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/news-and-features/BC%20Hydro%20Report_COVID19_DemandDilemma.pdf

Which may be somewhat tempered with growth in residential air conditioning:

<https://vancouversun.com/news/air-conditioning-use-on-the-rise-in-british-columbia-bc-hydro-report>

All things being equal, a 10% demand reduction equates to roughly a \$550 million per annum revenue deficiency, and would necessitate a 10% rate increase.

In this context, a detailed review of Hydro’s operational, capital and financial plans and prospects is both unlikely and not germane to understanding or dealing with the rate impacts arising from the substantive issues facing BC Hydro, its customers, and the economy as a whole.

This intervenor agrees with the Panel’s comment that in general, it is not optimal to have a decision by the Commission come late in the test period. This intervenor supports steps to advance and accelerate the RRA

process to achieve an efficient and fair review of BC Hydro's RRAs, recognizing trade-offs in timeliness of the information reviewed. In principle, BC Hydro should be able to recover prudently incurred expenses, such that it can be argued that a later decision ultimately results in the same long-term rates paid by customers. And that deferral accounts will grow or shrink to accommodate the timing of rate decisions. However, the key benefit of an earlier regulatory review is that the intervenors and the Commission can identify key problems in BC Hydro's expenditures or operations and: 'nip these in the bud', benefitting ratepayers.

This intervenor agrees that a full cost of service review can be deferred for the sake of efficiency. The most substantive pending cost issues for BC Hydro are unrelated to inflation, and therefore a simple inflation or escalation-based forecast of these costs would not be adequate.

In order of impact, I anticipate that demand destruction in the Commercial and Industrial customer sectors brought on by the pandemic is overwhelmingly the biggest factor facing BC Hydro. The next tier of rate impacts would involve potential deferrals in capital projects, made possible by demand reductions. Next in order of impact would be revenue reductions due to government-mandated customer rate relief programs. Beyond this, there may be changes in projected changes in trading income or borrowing costs. OMA and depreciation forecasting may be a category to which inflation or simple trending can be applied.

With respect to simplifying the critical load and revenue forecast inputs into the next ratemaking process, I suggest a high-level scenario-based approach, with drops in Commercial and Residential sector load based on a GDP elasticity factor and adjustments for known developments in major industrial accounts. Having managed BC Hydro's load forecasting process for 10 years, I can attest that BC Hydro's full forecast is a complex process involving many (internal and external) inputs, process steps and necessary approvals. Nevertheless, given the vast uncertainty in possible BC Hydro load and revenue outcomes over the next 3 years, the time and effort involved in executing the full load forecasting 'machine' surpasses what is required. In the current environment, a more simplified approach, focusing on changes to the previous forecast, and that includes scenarios or uncertainty bands, is faster and more appropriate.

With respect to a potential lengthening of the test period, I would agree that in general, a longer test period results in regulatory efficiency. However, the current situation is unprecedented in terms of the potential range of revenue outcomes. In this uncertain environment, a focused and streamlined regulatory process covering successive one-year test periods would be preferable, as more frequent applications and resulting decisions could be responsive within the very uncertain and rapidly evolving environment.

This intervenor supports the idea of BC Hydro filing a F2022 RRA in December 2020, with a Commission decision being rendered on a shorter timeframe than what would have ordinarily occurred, both due to the earlier start of the regulatory process, and the tightening of the scope and depth of the review. Correspondingly, the F2022 RRA should focus on key areas where BC Hydro is experiencing cost pressures, and address substantive changes from the F2020-21 RRA. The F2022 RRA should also address substantive topics highlighted in the Commission's decision on the F2020-F2021 RRA.

With respect to the questions posed by the Panel in Exhibit A-38, this intervenor fully supports the submission made by CEC on Aug. 14 on this subject.