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VIA EMAIL

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

Attention: Ms. Marija Tresoglavic, Acting Commission Secretary and Manager Regulatory Support

Dear Ms. Tresoglavic:

Re: British Columbia Hydro and Power Authority F2020 to F2021 Revenue Requirement Application – Project No. 1598990 – Exhibit A-37 Request for Comments

We are writing on behalf of the Clean Energy Association of B.C. ("CEABC") in response to the request by the British Columbia Utilities Commission ("BCUC" or "Panel") for comments as set out in Exhibit A-37.

In this Exhibit, the BCUC Panel expressed its view that: *"it is necessary to take steps to realign the RRA process to address the issues of regulatory efficiency and ratepayer risk,"* and it invited parties to provide submissions on a different approach to setting rates for F2022 and beyond.

The Panel further suggests that F2022 could be considered a "Gap Year" or bridging year, for which rates could be set *"based on some other mechanism, such as an inflation factor applied to F2020 rates or costs."* Thus the review process for the F2022 year could be greatly shortened, to allow an earlier submission of the F2023 and possibly F2024 years.

The Panel would like to see the F2023 RRA (and possibly F2024 as well), submitted by mid 2021. This would, presumably, allow a review and decision to take place before April 1, 2022 (the start of the F2023 year).

The F2023 and subsequent RRAs could be reviewed through either a Cost of Service (COS) process, or a Performance Based Ratemaking (PBR) process, depending on the outcome of the PBR evaluation proceeding.

In Exhibit B-59, BC Hydro responded that *"BC Hydro supports establishing a cycle that would allow BCUC decisions on BC Hydro's RRAs to occur earlier,…"* and *"BC Hydro is prepared to change its budgeting processes and timelines so that RRAs can be filed earlier and is generally supportive of the transition plan outlined in Exhibit A-37, which begins with a fiscal 2022 RRA being filed in December 2020,…"*

However, BC Hydro noted several considerations that need to be made for this early filing of the F2022 RRA, namely:

- The *"unprecedented uncertainty created by the CCOVID-19 pandemic…"*

- *"...that it would be very challenging to participate in a proceeding on fiscal 2022 rates while, at the same time, developing an application for fiscal 2023 and beyond."*
- *"FortisBC's Annual Review process typically takes approximately four months to conclude,…"* The CEABC wishes to point out that Fortis operates under a PBR regulatory regime.
- *"The BCUC's suggestion to potentially use an inflation-based mechanism for fiscal 2022 as a means of streamlining the review could be workable with some temporary reliance on deferral accounts,…"* However, BC Hydro notes that many of its costs *"are not directly tied to inflation."* And, further, that it has already identified certain areas where it will need to make additional investments, such as vegetation management, employee training, and cyber-security.
- Accordingly, BC Hydro suggests it might be more realistic to use a COS approach: *"focused on incremental requirements,…"* where BC Hydro would: *"identify incremental needs for specific areas… if there are underlying concerns about current budgets… we would expect BCUC would be identifying those in its pending decision on the fiscal 2020-2021 Application."*
- *"… work on both the capital plan and load forecast is currently underway as part of their annual cycles, under which drafts are completed in the late fall and approved in January 2021. Those iterations will not be available in time to incorporate into the December 2020 filing,…"*

CEABC entirely supports a realignment of the RRA process for the reasons pointed out by the Panel, and it agrees with the basic concept being advanced by BC Hydro, but would like to suggest some possible improvements.

It appears that, if BC Hydro files the F2022 RRA in December 2020, it will be based on an out-of-date load forecast and capital plan and, in a streamlined process; there will be no time to allow for an evidentiary update after these important elements are approved in January 2021.

CEABC's preference is that BC Hydro should prepare the F2022 RRA using the latest updated load forecast and capital plan but, rather than filing it in December 2020, the filing should be delayed until after those updated elements are approved by the Board in January 2021. This would allow the review to be based on the latest updated information, without the need for an evidentiary update.

A shortened and streamlined BCUC review process, for the F2022 RRA, would be essential if BC Hydro staff is expected to then be preparing the F2023 (and possibly F2024) RRA for filing by the end of June (mid-year). In exchange for an application based on the best available information the desired timesavings would have to be achieved on the "backend".

In this respect, the CEABC proposes that a modified version of the BCUC's suggested inflation-based mechanism be dealt with by an early Negotiated Settlement process ("NSP"). While CEABC is not normally in favour of NSPs, in this particular instance involving this "gap year" RRA, there is a benefit to be gained in terms of an improved budgetary cycle for the subsequent RRAs. Also, if the F2020 RRA can be at least partially formulaic, then an NSP may be well suited to the negotiation of those formulaic relationships.

For instance, by way of example only, CEABC offers the following hybrid approach, that is partly cost based and partly formulaic, as a "straw man" proposal for the BCUC and BC Hydro to further refine:

1. Operating Costs, in general, could be covered by an inflation-based increase. Since Operating Costs are roughly 25% of the total Revenue Requirement, the overall rates could be indexed to 25% of inflation.
2. To that basic increase would be added specific amounts to cover those identified areas of new spending, such as vegetation management, etc.
3. To allow for increases in Cost of Energy, we note that water rentals plus IPP costs constitute about 30% of the total Revenue Requirement but of this, about 7% for water rentals can be expected to remain

relatively constant. Furthermore, the sale of surplus energy and non-treaty storage should be able to reduce the overall cost of energy by approximately $400 million, or 8%. That leaves another 15% of Revenue Requirement that could be indexed to inflation (for a total of 40% indexed to inflation).

4. A further approximately 40% of the Revenue Requirement stems from capital based charges (amortization, finance charges, and the shareholder's return on equity), and these should be tied to the increase in capital, rather than inflation. That increase in capital is basically the new capital additions minus the annual amortization and write-offs. Those numbers should be well known to BC Hydro once the annual capital plan has been approved in January 2021.
5. As for the impact of COVID-19, BC Hydro will have to provide its best estimate of the load it expects in F2022. If its forecast turns out to be in error then the revenue impact of that forecasting error will be, presumably, absorbed by the deferral and/or regulatory accounts, to be collected or repaid in a later year.

If possible, BC Hydro should be able to utilize this kind of hybrid approach, with refinements to the logic, proportions, etc., to produce a more abbreviated application, which can then be the subject of the shortened and streamlined F2022 RRA review, possibly employing an NSP to speed up the process. Thus allowing BC Hydro staff to file the F2023 (and possibly F2024) RRA by the end of June, or early July.

When filing the F2023 RRA, it will be highly desirable that this application includes each of the following items:

1. A complete list of all the recommendations stemming from the Comprehensive Review Phase 2, and BC Hydro's plan for their implementation;
2. A rate of return on equity as determined by a BCUC review process. This should be included in the F2022 RRA as well, but there may not be sufficient time to conduct the review process before that RRA is submitted.
3. BC Hydro's long-term plan (the IRP), including its load forecast and acquisition plan that incorporate its objectives for electrification to comply with the CleanBC plan objectives for GHG reductions.
4. An analysis that reconciles:
   - The provincial GHG reduction targets (i.e. 40% by 2030, 60% by 2040, 80% by 2050);
   - The CleanBC Plan targets for GHG reductions, showing the amount that is expected to come from BC Hydro electrification programs. I.e. What portion of the provincial GHG reductions is expected to come from BC Hydro electrification programs, and where is the rest expected to come from?; and
   - The IRP forecast for new BC Hydro electrification loads.

All of which is respectfully submitted.

Yours truly,

STIRLING LLP on behalf of the Clean Energy Association of B.C.

David Austin

per David A. Austin*
**a Law Corporation*
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