

August 14, 2020

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

**Attention: Marija Tresoglavic, Acting commission
Secretary**

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Our reference 100385863

Dear Ms. Tresoglavic:

**BC Hydro F2020-F2021 Revenue Requirements Application (RRA)
Association of Major Power Customers of BC (AMPC) Comments on F2022 Rate-
Setting Process and Commission Questions regarding Direction No. 8**

We are counsel to AMPC in this matter, and we write in response to the Commission's letters dated July 6, 2020¹ and July 15, 2020² regarding the process for setting BC Hydro's rates in the coming years and the effect of Direction No. 8, respectively, and BC Hydro's letters dated July 24, 2020 in response to the same.³

We provide AMPC's comments on these topics in turn below.

1. Process for setting BC Hydro's rates in F2022 and subsequent years

In its July 6, 2020 letter, the Commission suggested that, for F2022, BC Hydro could forgo a full cost of service review and apply for rates based on "some other mechanism, such as an inflation factor applied to F2020 rates or costs". The Commission contemplated that, under such an approach, "some costs [could] be increased by an inflation factor", and "temporary deferral accounts may be required to ensure that any risk is appropriately balanced between the shareholder and ratepayers".⁴

In BC Hydro's response, it submits that, while 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", in BC Hydro's view a "more realistic alternative would be to use a cost of service approach focussed 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".⁵ BC Hydro suggests that, "[f]or

¹ Exhibit A-37.

² Exhibit A-38.

³ Exhibits B-59 and B-60.

⁴ Exhibit A-37, p. 3.

⁵ Exhibit B-59, p. 2.

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example, again with respect to operating costs, we would identify incremental needs for specific areas such as those mentioned above [e.g. vegetation management, cybersecurity and employee training] and could propose an inflation-based approach for other areas”.⁶

AMPC submits that the Commission should reject BC Hydro’s proposed approach to setting F2022 rates (“a cost of service approach focussed on incremental requirements”), and should instead proceed with the approach originally suggested in the Commission’s July 6, 2020 letter (an inflation factor applied to costs, along with the use of temporary deferral accounts as necessary).

BC Hydro’s suggested approach amounts to a BC Hydro RRA on the merits for F2022, but prepared and filed by BC Hydro with little practical ability to take into account the Commission’s findings in its decision on the present F2020-F2021 RRA proceeding, given the timelines involved. This would undermine and potentially even undo much of the hard work undertaken by BC Hydro, interveners and the Commission over the course of the present proceeding to facilitate BC Hydro’s return to full regulation,⁷ and would also undermine customer participation in how the rates that customers pay are set.

More generally, AMPC is concerned that BC Hydro’s suggested approach would not result in a fair assessment of BC Hydro’s costs for F2022. Under BC Hydro’s proposal, BC Hydro will identify and justify cost categories that require an increase in forecast expenses greater than the effect of inflation, while other cost categories will be simply adjusted for inflation. BC Hydro’s proposal would not only limit testing the accuracy of these assumptions, but also does not reflect the real possibility that BC Hydro may experience cost decreases in other categories, which could offset in whole or in part the cost increases that BC Hydro contemplates. For this reason, AMPC favours the Commission’s overall, inflationary approach.

As an example, the effects of the COVID-19 pandemic may reduce the amount that BC Hydro pays for contract staff, due to reduced hiring of the same, and the historically low interest rates resulting from the pandemic will reduce BC Hydro’s cost of borrowing. As noted in BC Hydro’s submission, we are in a situation of “unprecedented uncertainty created by the COVID-19 pandemic”, which has the potential to “have a substantial impact on BC Hydro’s revenues and rates”.⁸ This uncertain situation will likely endure beyond December 2020, when the Commission contemplates BC Hydro will file its F2022 rate application.

Given the above, and particularly the extensive exercise undertaken in the present F2020-F2021 RRA to establish BC Hydro’s revenue requirement, AMPC submits that the Commission’s original proposal is a better, more principled approach: to use the approved F2020-F2021 costs established through the present proceeding (once the BCUC issues its decision and reasons on the matter) as the basis for BC Hydro’s F2022 rates, with an inflation factor applied to costs and the use of temporary deferral accounts to adjust for variances from forecast as necessary. This approach better supports BC Hydro’s return to full regulation in the long term, as it will permit BC Hydro to file a full RRA for the next test period (F2023-F2024 or F2023-F2025) early enough for the Commission to complete its review in a timely way. This will also allow enough time for BC Hydro to incorporate the outcomes and directions from the Commission arising from the present F2020-F2021 RRA in BC Hydro’s next full RRA filing.

BC Hydro also stresses that any F2022 RRA process should be “conducted efficiently, with some streamlining to allow for an expeditious resolution”,⁹ and asserts that achieving a sufficiently short timeframe for determining

⁶ Exhibit B-59, p. 2.

⁷ BC Hydro has acknowledged that the “length of the current proceeding was associated to a significant degree with BC Hydro’s return to full regulation”: Exhibit B-60 at p. 4.

⁸ Exhibit B-59, p. 1.

⁹ Exhibit B-59, p. 1.

F2022 rates “would require BCUC direction on scoping, and efforts on behalf of all parties to focus on the most pertinent issues”.¹⁰

AMPC concurs with BC Hydro that an efficient hearing process is necessary to achieve an expeditious decision for F2022 rates and more generally should be a priority in all future rate proceedings. AMPC disagrees with using broad scoping restrictions as a primary tool, however. In AMPC’s view, steps to ensure coordination between interveners with overlapping interests (as typically happens at least informally between those intervener groups with large constituencies) is a better initial mechanism. It is important that customers who pay BC Hydro’s rates remain able to test the basis for those rates.

In any event, AMPC submits that the Commission should not delay its decision and reasons for the F2020-F2021 RRA to include reasons concerning the process to set BC Hydro’s F2022 rates, given that it is now nearly half-way through the second year of the two-year test period which is the subject of the present proceeding.

2. Effect of Direction No. 8

With respect to the Commission’s questions regarding the effect of Direction No. 8 on the present proceeding,¹¹ AMPC generally agrees with BC Hydro’s responses set out in its letter dated July 24, 2020,¹² and particularly the following summary provided by BC Hydro:

- *The legal effect of section 3 of Direction No. 8 is that it deems \$712 million as meeting the fair return standard in the current Test Period. That is, the BCUC must set rates in each year of the Test Period that will allow BC Hydro to recover the reasonable cost of serving customers and afford BC Hydro a reasonable opportunity to earn \$712 million. (Questions 1 and 4)*
- *The fair return standard, even as modified by s. 3, allows the BCUC to assess the reasonableness of the forecast costs, and to disallow incurred costs determined to have been imprudent. When reviewing BC Hydro’s revenue requirements, the BCUC’s fundamental obligation under the UCA is the same irrespective of how much of the Test Period has passed. (Question 2)¹³*

AMPC has also had the opportunity to review MoveUP’s supporting submission, dated August 11.¹⁴ AMPC likewise supports MoveUp’s submissions on these issues, including where MoveUP identifies instances of potential “overthinking” regarding the effect of Direction No. 8. Direction No. 8 *cannot* be reasonably interpreted to make the work, effort, and expense of BC Hydro and the interveners during the just completed regulatory process nugatory.

BC Hydro, interveners and the Commission have undertaken multiple rounds of information requests and responses, an extensive oral hearing and both written and oral arguments. AMPC also sponsored detailed and substantial intervener evidence. Direction No. 8 was implemented as part of returning BC Hydro to full independent regulation by the Commission, via precisely this sort of proceeding. Interpreting Direction No. 8 in a manner that sterilizes core Commission powers would be inconsistent with that purpose. Finally, if there was a realistic potential interpretation that hearing evidence could not affect BC Hydro’s ultimate revenue requirement – and AMPC rejects the notion – then that prospect should have been canvassed at the outset of the hearing.

Accordingly, the Commission should close these issues, issue its RRA decision shortly, and direct BC Hydro to revise its rates to give effect to the decision forthwith, during the remaining months of the F2021 test year. Given

¹⁰ Exhibit B-59, p. 2.

¹¹ Exhibit A-38.

¹² Exhibit B-60.

¹³ Exhibit B-60, p. 1.

¹⁴ Exhibit C1-10.

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the business uncertainty associated with relying on lengthy periods of interim rates, AMPC supports the Commission's initiative to move the schedule of BC Hydro applications to well before the start of the test period.

Please contact the writer if you have any questions.

Yours very truly,

A handwritten signature in blue ink, appearing to read "M. Keen".

Per: Matthew D. Keen

MDK/roe