

Fred James

Chief Regulatory Officer

Phone: 604-623-4046

Fax: 604-623-4407

bchydroregulatorygroup@bchydro.com

August 20, 2020

Ms. Marija Tresoglavic
Acting Commission Secretary and Manager
Regulatory Support
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Tresoglavic:

RE: Project No. 1598990
British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
Fiscal 2020 to Fiscal 2021 Revenue Requirements Application
(the Application)

BC Hydro writes to provide comments in reply to the comments of interveners on BC Hydro's submissions on the approach to BC Hydro's future revenue requirement applications (**RRAs**) and the Panel's questions on the effect of section 3 of Direction No. 8. We focus on the interveners' main arguments on matters relevant to these issues, rather than replying line by line.¹

Reply to Intervenors on Approach to Future RRAs

There is general consensus among the parties that the fiscal 2022 revenue requirements application and proceeding should be streamlined to reflect a transitional year. Most interveners (including MoveUP,² Zone II RPG,³ BCOAPO⁴, BCSEA⁵, Mr.

¹ Accordingly, the BCUC should not interpret BC Hydro's silence on a particular intervener argument as agreement.

² Exhibit C1-9, p. 1: "MoveUP is in broad agreement with the observations offered by BC Hydro in Exhibit B-59."

³ Exhibit C5-13, p. 1: "BC Hydro has proposed the Panel consider a cost of service approach focussed on incremental requirements for F2022, which Zone II RPG does not oppose. Zone II RPG also considers an incremental approach preferred to the Panel's proposed "inflation factor" for the reasons presented by BC Hydro..."

⁴ Exhibit C6-10, "We are instead supporting BC Hydro's hybrid solution...":

⁵ Exhibit C8-8, p. 1.

Ince⁶, and Ms. Gjoshe⁷) were also supportive of BC Hydro's proposal for setting rates for fiscal 2022 and beyond as set out in Exhibit B-59.

AMPC, while conceding the need for a streamlined process for fiscal 2022, advocates using an inflation factor applied to costs along with the use of temporary deferral accounts, as necessary. AMPC submits that BC Hydro's suggested approach limits the opportunity to test the accuracy of any cost increases and does not reflect the possibility of cost decreases.⁸ To clarify, BC Hydro's proposal for a cost of service approach focused on incremental requirements would also include any identified cost decreases. In addition, by focusing on such incremental changes, BC Hydro expects that the proceeding would provide a full opportunity for the BCUC and interveners to test the accuracy of any cost increases and cost decreases identified by BC Hydro, including for example operating costs and interest costs, and to explore whether any additional changes are warranted.

BC Hydro believes that AMPC's proposal would provide little or no opportunity to test the assumptions around BC Hydro's fiscal 2022 RRA plan amounts, other than the assumptions around any inflation factor. As we noted in BC Hydro's initial submission (echoed by BCOAPO,⁹ CEC,¹⁰ Mr. Ince¹¹ and Zone II RPG¹²) applying an inflation factor across the board to determine forecast costs rather than basing the plan on forecast changes in actual costs imposes additional risk on both the utility and ratepayers. A cost of service review based on incremental requirements is a preferable approach. It will facilitate a review of forecast costs, while more closely approximating the reciprocal risk associated with traditional cost of service ratemaking.

CEC proposes that the RRA include high-level, quantitative reviewable business metrics with minimal description-type information or explanations.¹³ BC Hydro does not object to including this type of information in the fiscal 2022 RRA, provided that it is limited to the metrics that BC Hydro actually uses to manage its operations, such as those provided in BC Hydro's response to BCUC IR 1.62.1. Including metrics in the fiscal 2022 RRA that are not used by BC Hydro in the regular course of business would run counter to the objective of regulatory efficiency - a particularly important consideration in the context of a truncated fiscal 2022 proceeding. CEC's proposed pilot approach also appears to be

⁶ Exhibit C12-8, p. 1-2: "As background, this intervenor is in general agreement with the suggestions made by BC Hydro in Exhibit B-59."

⁷ Exhibit C14-9, p. 2: Ms. Gjoshe supports a streamlined process for the fiscal 2022 RRA and a determination of a base year for any PBR as part of the Commission's Performance Based Ratemaking regulatory process.

⁸ Exhibit C11-28, p. 2.

⁹ Exhibit C6-10, p. 2.

¹⁰ Exhibit C9-18, p. 7.

¹¹ Exhibit C12-8, p. 2.

¹² Exhibit C5-13, p. 1.

¹³ Exhibit C9-18, p. 3.

similar in nature to the CEC's proposal recently rejected by the BCUC in its Decision on the BC Hydro Review of Regulatory Oversight of Capital Expenditures and Projects.¹⁴

CEC also submits that the review of capital should be removed from the RRA.¹⁵ In BC Hydro's submission, while there are opportunities to streamline the level of capital information provided in the fiscal 2022 RRA to support regulatory efficiency and an earlier filing date, the CEC's suggestion to remove the review of capital from the RRA entirely is contrary to the BCUC's recently established Capital Filing Guidelines.¹⁶

CEABC comments that it generally supported BC Hydro's fiscal 2022 RRA proposal, but suggests that BC Hydro should (a) include the latest updated load forecast and capital plan, and (b) delay the filing until after those updated elements are approved by the Board in January 2021. BC Hydro submits that this delay would undermine the objective of advancing the RRA regulatory cycle. It would delay the BCUC's decision on the fiscal 2022 RRA, as well as BC Hydro's subsequent filing of the fiscal 2023 RRA.

CEABC also provided a hybrid proposal for the fiscal 2022 RRA that is partly cost based and partly formulaic, as a "straw man" for the BCUC and BC Hydro to further refine. CEABC felt this approach would lend itself to a Negotiated Settlement Process. Many of the assumptions made by the CEABC in its proposal are not possible to verify at this time. The BCUC should thus refrain from directing an approach with this level of specificity.

Mr. McCandless suggests that the appropriate return on equity and the appropriate debt to equity ratio target be areas of focus in the next application.¹⁷ BC Hydro expects to submit a separate application to the BCUC to set its allowed net income (return on equity), and the two processes should remain separate. The regulatory process to review and set allowed net income is complex, relies heavily on expert evidence and is quite distinct from the matters addressed within an RRA.

Mr. Willis suggests that the fiscal 2022 RRA should be submitted by November 1, 2020.¹⁸ While BC Hydro appreciates Mr. Willis' suggestions to improve regulatory efficiency, it will already be challenging to submit the fiscal 2022 RRA by late December 2020. Advancing the submission date further, to November 1, 2020, would not be feasible.

¹⁴ BC Hydro Review of Regulatory Oversight of Capital Expenditures and Projects, Decision and Order G-313-19, dated December 2, 2019, pp. 40-47. Online: https://www.bcuc.com/Documents/Proceedings/2019/DOC_56448_2019-12-02-BCH-Review-of-BCH-Capital-Expenditures-Decision.pdf.

¹⁵ Exhibit C9-18, p. 5-6.

¹⁶ BCUC Order No. G-31-20, dated February 25, 2020. Online: <https://www.ordersdecisions.bcuc.com/bcuc/orders/en/462003/1/document.do>.

¹⁷ Exhibit C4-3, p. 4.

¹⁸ Exhibit C7-5, p. 1.

Effect of Section 3 of Direction No. 8

Most interveners either supported BC Hydro's position on the effect of section 3 of Direction No. 8, or expressed no opinion.

Mr. McCandless maintains that BC Hydro's response to Panel question 5 is contrary to the scope of the Non-Heritage Deferral Account, which allows variances between actual and planned revenue to be deferred for future recovery from / refund to ratepayers.¹⁹ To clarify, BC Hydro's response to this question should be read as stating that the difference between BC Hydro's planned and actual net income in a given year, whether higher or lower, does not need to be recovered from or refunded to ratepayers in the subsequent test period. This is distinct from the issue that Mr. McCandless is referencing with regard to whether variances between actual and planned revenue can be deferred for future recovery or refund.

For further information, please contact Chris Sandve at 604-974-4641 or by email at bchydroregulatorygroup@bchydro.com.

Yours sincerely,



Fred James
Chief Regulatory Officer

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¹⁹ Exhibit C4-3, p. 5-6.