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British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC, V6Z 2N3
Attn: Marija Tresoglavic, Acting Commission Secretary
By web posting

Dear Madam:

Re: BCUC Review of British Columbia Hydro and Power Authority's
Performance Based Regulation Report
B.C. Sustainable Energy Association Submissions

These are the submissions of the intervener B.C. Sustainable Energy Association as requested in the Commission's September 17, 2020 letter to the parties.¹

The Commission's questions are set out in italics, followed by BCSEA's submissions.

1. Scope of the Review – List of Issues

a. To what extent does the BCUC have jurisdiction to approve or direct PBR or incentive-based mechanisms for BC Hydro?

In BCSEA's view, the Commission's authority to approve or direct PBR or incentive-based mechanisms for BC Hydro is not limited by jurisdictional factors.

b. What should be the goals of BCUC regulation with respect to BC Hydro (e.g. regulatory efficiency, cost control, and/or balancing risk between ratepayers and BC Hydro)?

In BCSEA's view, the goals of BCUC regulation of BC Hydro should be to ensure that BC Hydro provides safe, reliable, reasonably-priced service in line with the BC energy objectives, and to regulate in a manner that is effective, efficient and fair.

BCSEA sees regulatory efficiency, cost control, and balancing risk as examples of factors that must be addressed, but not as objectives that can or should be prioritized against each other. That said, BCSEA sees the work level associated with the review of BC Hydro's F2020-F2021 Revenue Requirement Application as being unusually high, commensurate with the fact that this was the Commission's first full review of BC Hydro's revenue requirement in many years.

c. What aspects of PBR would help in achieving the above goals?

BCSEA understands the Commission's consultant, Dr. Lowry, to have defined "PBR" broadly to include a number of features of the current regulatory framework applicable to BC Hydro. BCSEA considers that the aspects of PBR that are currently applicable to BC Hydro contribute to achieving the goals of BCUC regulation of BC Hydro. BCSEA is not convinced that adoption of additional aspects of PBR, not currently applicable to the regulation of BC Hydro, is

¹ Exhibit A-9.

necessary in order to achieve the goals of BCUC regulation of BC Hydro. However, as discussed below, BCSEA considers that inclusion of forward test years and multiple test years in future BC Hydro RRAs could foster BCUC's goals for regulation of BC Hydro.

d. Are there unique aspects of BC Hydro regulation that affect the application of PBR to BC Hydro?

This question is addressed with the understanding that “the application of PBR to BC Hydro” refers to aspects of PBR that are not currently applicable to BC Hydro.

In BCSEA's view, the prospect of enhanced earnings under PBR would not be an effective motivator for BC Hydro's Shareholder (the BC Government) to cause BC Hydro to contain costs more under PBR than it would under a Cost of Service (COS) rates regime. BCSEA considers that the BC Government is more interested in reducing upward pressure on BC Hydro's rates and in achieving policy objectives such as low-carbon electrification than in increasing the government's earnings from BC Hydro.

This view is supported by the following factors identified by BCSEA in its March 17, 2020 letter to the Commission:²

- The BC Government is transitioning to a more traditional mechanism in which its shareholder's income from BC Hydro is based actual, not deemed, debt/equity and a return on equity to be determined by the BCUC (in a future proceeding). This comes after many years during which the BC Government had complete control over the size of its earnings from BC Hydro. It seems to be understood that the new mechanism will result in less, not more, shareholder's revenue from BC Hydro at least for the foreseeable future. This suggests that BC Hydro's shareholder is motivated primarily by factors other than maximizing its shareholder's return.
- The BC Government recently absorbed a \$1.1 billion write-off of BC Hydro's Rate Smoothing Regulatory Account in order to put BC Hydro's finances on a better footing for limiting future rate increases. Where BC Hydro's shareholder is willing to absorb a \$1.1 billion write-off to reduce rate increases, it is not likely that a financial incentive under a PBR framework would be large enough to motivate the shareholder to require BC Hydro to contain costs that BC Hydro would otherwise have incurred.
- The BC Government has numerous levers, such as setting water rentals and payments in lieu of taxes, for adjusting the amount of revenue it receives from BC Hydro, separate from earnings based on a return on equity (whether under PBR or COSR).

BCSEA has reviewed Dr. Lowry's September 8, 2020 written presentation³ and his comments during the September 8, 2020 workshop.⁴ While Dr. Lowry's contributions are very informative, in BCSEA's view the evidence does not indicate that BC Hydro's shareholder, the BC Government, has a profit motive in relation to BC Hydro such that the prospect of enhanced

² Exhibit C1-3.

³ Exhibit A2-7.

⁴ Transcript Volume 2.

earnings under PBR would cause BC Hydro to contain costs more under PBR than it would under COS regulation.

e. Are there unique aspects of BC Hydro business conditions that affect the application of PBR to BC Hydro?

In BCSEA's view, three factors dominate BC Hydro's current business conditions related to the prospect of enhanced earnings under PBR:

- BC Hydro is long on energy and capacity and will likely remain so for at least ten years,
- BC Hydro has experienced considerable loss of demand due to the economic impacts of the COVID-19 pandemic, and the timing and degree of a rebound in demand is the subject of significant uncertainty, and
- BC Hydro has a high priority on achieving low-carbon electrification in order to help reduce BC's GHG emissions in accordance with the CleanBC Plan and the legislated GHG reduction targets.

BCSEA's view is that adoption of a new PBR earnings enhancement mechanism for BC Hydro would not particularly help BC Hydro address its surplus position, pandemic demand loss, and low-carbon electrification imperative.

f. Should some form of PBR be implemented for BC Hydro? If PBR were to be implemented, is an incremental approach necessary? What is the process and timing to implement that form of PBR?

In BCSEA's view, adoption of an earnings enhancement type of PBR mechanism for BC Hydro is not a priority at this time. BCSEA considers that higher priorities include:

- implementing any directions from the Panel hearing the F2020-F2021 Revenue Requirement Application,
- establishing a Return on Equity for BC Hydro,
- developing and reviewing the 2021 Integrated Resource Plan,
- expanding low-carbon electrification, and
- contending with the impact of the COVID-19 pandemic.

g. What elements of PBR could be added to a more traditional form of rate regulation (i.e. Cost-of-Service) to achieve the BCUC's regulatory goals, and what is the process and timing for implementing those elements?

BCSEA has no specific suggestions for adding new PBR elements to the Commission's regulation of BC Hydro. That said, BCSEA considers that inclusion of forward test years and multiple test years in future BC Hydro RRAs could foster BCUC's goals for regulation of BC Hydro. This could be combined with an RRA for F2022 based substantially on the F2020-F2021 RRA and, to the extent practicable, taking into account the Commission's decision on the F2020-F2021 RRA.

2. Remaining Review Procedure for Current Proceeding

a. Are parties seeking an opportunity for further evidentiary submissions? If yes, in what format?

BCSEA does not intend to file evidence and does not see a need for further evidence.

b. Are parties seeking an opportunity for a round of information requests for either of the following? i. Participant information requests to BCUC Staff Consultant ii. Participant information requests to BC Hydro

For its part, BCSEA does not require an addition round of information requests to the BCUC Staff Consultant or to BC Hydro.

c. Do parties see value in a Streamlined Review Process or an Oral Hearing to review the record further?

BCSEA does not see a need for further examination of the record. In BCSEA's view, the proceeding has resulted in a rigorous examination of the potential applicability of PBR mechanisms to the Commission's regulation of BC Hydro.

d. Would parties prefer final arguments to be written or oral?

BCSEA would prefer final arguments to be in written form.

3. Conclusion

In BCSEA's view, the prospect of enhanced earnings under PBR would not be an effective motivator for BC Hydro's Shareholder (the BC Government) to cause BC Hydro to contain costs more under PBR than it would under a Cost of Service (COS) rates regime. BCSEA considers that inclusion of forward test years and multiple test years in future BC Hydro RRAs could foster BCUC's goals for regulation of BC Hydro. This could be combined with an RRA for F2022 based substantially on the F2020-F2021 RRA and, to the extent practicable, taking into account the Commission's decision on the F2020-F2021 RRA. BCSEA believes that the proceeding has resulted in an informative, rigorous examination of the potential applicability of a variety of PBR mechanisms to the Commission's regulation of BC Hydro. BCSEA supports concluding the proceeding with written arguments.

Yours truly,

William J. Andrews



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