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Sent via eFile

**BCUC REVIEW OF BC HYDRO PBR REPORT
EXHIBIT A2-10**

Mr. Fred James
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Re: British Columbia Utilities Commission – Review of British Columbia Hydro and Power Authority’s Performance Based Regulation Report – Project No. 1599045 – BCUC Staff Consultant Response to CEABC Information Request No. 1

Dear Mr. James:

British Columbia Utilities Commission staff submit the following for the record in this proceeding:

Pacific Economics Group Research LLC
Response to CEABC Information Request No. 1
Dated November 16, 2020

Sincerely,

Original signed by:

Marija Tresoglavic
Acting Commission Secretary

/cmv
Enclosure

1.0 Reference: Regulatory Goals and the advantages of PBR in achieving them.

In its September 30, 2020 submission the intervener B.C. Sustainable Energy Association (“BCSEA”) has given a concise summation of the BCUC’s regulatory goals, as follows (Exhibit C1-6, page 1):

“... 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.”

- 1.1 In the Staff Consultant’s experience, does this concise description portray a reasonable (albeit highly condensed) characterization of the regulatory goals for a typical utility such as BC Hydro? Are there any aspects that would typically be added, deleted or stated differently, in the Consultant’s experience, for a Crown utility such as BC Hydro?

PEG Response

Yes. This is a good summary of goals but could be tweaked with the following alternative language.

BCUC regulation of BC Hydro should ensure that the Company provides *an appropriate array of safe, reliable, and reasonably-priced services* that are in line with the BC energy objectives, and to regulate in a manner that is effective, efficient and fair.

- 1.2 In view of these goals, what are the shortcomings of the current regulation of BC Hydro, which could be improved by the use of certain specific PBR measures? Which of those regulatory goals could be better met by using specific PBR methodologies?

PEG Response

The Company’s regulatory system could be more efficient and generate stronger incentives for cost containment, demand-side management (“DSM”), and marketing. PBR can help with all of these goals.

- 1.3 To what extent should these specific PBR measures be able to eliminate or reduce the shortcomings? And why should these measures be expected to accomplish this improvement?

PEG Response

While PEG has not proposed a specific PBR plan for BC Hydro it notes the benefits of the following PBR provisions.

- A multiyear rate plan (“MRP”) would strengthen BC Hydro’s general cost containment incentives and improve the efficiency of BCUC regulation. Less time spent on rate cases would mean more time available to spend on other issues such as improved rate and service offerings and DSM.
- Strengthened incentives for electrification of transportation (“EOT”) would encourage this goal.
- A performance incentive mechanism (“PIM”) for peak load management can encourage more peak load management if warranted.

Oversight of employee incentives can encourage the Company to respond to the external incentives. PEG has not calculated the benefits from additional PBR provisions but believes that some may be directionally beneficial.

- 1.4 What other costs or problems could be expected to arise due to the application of those specific PBR measures? And what could be done to mitigate those other problems?

PEG Response

Many complications and controversies may arise in the development of an MRP. The terms of MRPs have favored utilities in some jurisdictions. The design and implementation of DSM PIMs can involve non-negligible regulatory cost.

- 1.5 Presumably, one of the benefits expected from multiple year rate plans ("MRP") would be less time spent in regulatory processes and a lesser burden on the utility associated with providing information to the Commission and interveners. However, in a hybrid system, one that retains Cost of Service ("COS") elements as well as PBR incentive measures, wouldn't the longer interval between proceedings still result in a large informational burden, just less frequently?

PEG Response

Under an MRP, BC Hydro should still routinely file extensive information on its operations.¹ The Company would also participate in various generic and special-topic (e.g., rate design and planning) proceedings. However, rate cases providing parties with the opportunity to question and contest company evidence on its future revenue needs would be held less frequently. This should materially improve the efficiency and effectiveness of the regulatory system.

- 1.6 With longer intervals between proceedings, won't there be a need for additional time and effort for the regulator and interveners to re-acquaint themselves with the operation of the utility during the interval in order to fully understand the next MRP?

PEG Response

Some extra time may be required but, as noted in response to question 1.5, there would be many opportunities for the commission and intervenors to stay abreast of the Company's activities. They will be able to keep their rate case skills sharpened in the rate cases for other utilities, which would hopefully not overlap. PEG is unaware of a "reacquaintment" problem in other jurisdictions with MRPs. The question arises as to how much this was a problem in the recent Fortis proceeding in BC.

- 1.7 Under a PBR system do separate applications for certificates of public convenience and necessity continue ("CPCNs")? If not please explain? If yes, what is the relationship between any approvals of CPCNs during the term of an already approved MRP and the next MRP?

PEG Response

The continuance of CPCN proceedings would be an issue to resolve. At a minimum, they seem warranted for the largest plant additions. In the new Fortis MRPs, CPCN proceedings have

¹ In the United States, energy utilities file detailed operating data with the Federal Energy Regulatory Commission or (in the case of gas distributors) state regulators whether or not they operate under MRPs.

continued. A scale back of CPCN proceedings would not be an issue if an MRP was not contemplated.

2.0 Reference: Exhibit A2-6, BCUC's Staff Presentation. The deficiencies of regulatory incentives.

BCUC's Staff Presentation (Exhibit A2-6, slide 5) characterized the deficiencies in regulatory incentives as leading to three undesirable outcomes [emphasis added]:

- *Good things that are not profitable for the utility*
- *Bad things that are profitable to the utility*
- *Good things not getting done for lack of interest or motivation*

2.1 In the case of a Crown utility like BC Hydro, that does not appear to be "profit" driven, what other performance measure than "profitable" would you substitute in the above list?

PEG Response

PEG believes that earnings do matter for BC Hydro, as discussed in their response to Zone II Ratepayers Group question 2.1.

2.2 In the case of BC Hydro, what aspects of its performance do you see as falling into each of these three categories of undesirable outcomes? i.e. In your view, what "good things" are being missed and what "bad things" are being done?

PEG Response

The first category would include weak incentives to promote electrification of transportation. PEG does not have clear examples for the second and third categories.

2.3 In BC Hydro's case, what incentives could be utilized, apart from the profit incentive, to avoid these undesirable outcomes?

PEG Response

Please see the response to Zone II Ratepayers Group question 2.1.

3.0 Reference: Benchmarking: Exhibit A2-5, Staff Consultant Report, and Exhibit A2-7, Workshop Presentation "Review of BC Hydro's PBR Report".

BC Hydro currently benchmarks its rates against the Quebec Hydro survey of North American rates, and the Staff Consultant has acknowledged that BC Hydro's Service Plan currently uses at least 12 performance metrics (Exhibit A2-7, slide 64). These include:

- SAIDI,
- SAIFI,
- Key Generation Forced Outage Factors,
- Customer Satisfaction Indexes,
- Progressive Aboriginal Relations Designations,

- Competitive Rates in the 1st Quartile (based on the Quebec Hydro survey),
- Project Budget to Actual Cost Ratios,
- Overall Clean Energy % targeting 93%,
- New Clean Supply at 100%,
- Incremental Energy Conservation Energy targeting 700 GWh/year,
- Zero Fatality and Serious Injury counts at zero,
- Lost Time Injury Frequency targeting 0.80,
- Timely Completion of Corrective Actions % targeting 95%. What aspects of successful performance are these benchmarks missing?

PEG Response

PIMs in the following additional areas merit consideration

- Quality of customer service
- Quality of resource and delivery system planning
- Attention to systemwide and local peak load management
- Electrification of transportation

3.1 In what ways are the current benchmark metrics deficient? In your experience, are there other, perhaps better, benchmarks that should be used? Would you recommend adding some different benchmarks or using the same ones in different ways?

PEG Response

- The Hydro-Quebec rate comparison does not control for the fact that BC Hydro (like Hydro-Quebec) has the advantage of access to extensive low-cost hydroelectric resources. BC Hydro would likely be in the first quartile even with mediocre to poor cost management. Cost performance benchmarking should be upgraded.
- The performance metric systems of several US utilities include regional as well as systemwide reliability metrics.

3.2 You stated that a benchmarking study can usually be done in 2 to 3 months (Exhibit A2-7, slide 11). Are you recommending that the BCUC should have BC Hydro commission a benchmarking study?

PEG Response

Statistical benchmarking should play a larger role in the Company's regulation. Benchmarking studies should be undertaken by the Commission (or, with suitable funding, intervenors) as well as by BC Hydro, as in Australia, Great Britain, Ontario, and Quebec.

3.3 Would such a benchmarking study be a reasonable first step in assessing whether BC Hydro could benefit from PBR?

PEG Response

Such benchmarking studies would be a reasonable step with or without PBR and can be part of a proceeding to consider new PBR provisions.

4.0 Reference: What incentives, other than profit, can effectively motivate BC Hydro?

For many years, CEABC has been recommending that an effective way for BC Hydro to mitigate its steadily rising rates, and also achieve the Government of B.C.'s objectives for reducing GHG emissions in the province, would be to aggressively pursue new energy loads, in particular pursuing electrification that reduces fossil fuel consumption.

CEABC has also frequently recommended that BC Hydro should focus more of its capital investment plans on assets that would result in increased domestic loads, rather than focusing largely on assets to reduce safety and reliability risks.

Yet BC Hydro's annual domestic energy sales remain no greater today than in 2006. While its' capital-based revenue requirement has increased by 85%, its staffing by 75%, and its operating costs by 138%, continually driving up its required domestic rates. And its capital spending program remains 95% allocated to risk reduction projects rather than sales increasing projects.

In CEABC's view, there is clearly something missing from BC Hydro's motivations. But CEABC is not sure it is something that PBR measures could correct.

4.1 In your experience, is there some incentive missing from BC Hydro's motivations, or is there some negative incentive operating, that results in BC Hydro's lack of action towards increasing its domestic load and, in particular, pro-actively seeking ways to electrify more fossil fueled emission sources?

PEG Response

Yes. BC Hydro's regulatory system includes comprehensive revenue decoupling and frequent rate cases. This deprives the Company of the margins that could be earned from boosting EOT and price-sensitive loads. EOT is not emphasized in the service plan metrics that influence management bonuses.

4.2 What PBR measures could be instituted, that could cause BC Hydro to become more pro-active towards seeking out new domestic loads, particularly loads which would reduce fossil fueled energy production?

PEG Response

Possible PBR measures include the following.

- Exempt EOT loads (and other loads that are sensitive to the terms of service) from revenue decoupling.
- PIMs for growth loads and commercial EOT chargers.

- Tracking costs of company-owned EOT connections and commercial EOT chargers.
- Greater attention to EOT in employee incentive packages.
- Increased EOT marketing flexibility and/or pilot programs.

5.0 Reference: How can a corporation be incentivized without incentivizing the individuals who control and act for the corporation?

Powerex, BC Hydro's unregulated import/export marketing arm, has a compensation plan that includes strong performance-based incentives. Powerex, therefore, is highly profit-motivated, and actively pursues increasing electricity sales.

The regulated side of BC Hydro does not use management incentive plans to encourage domestic electricity sales, and domestic electricity sales have not increased for over 10 years.

During the F2020-F2021 Revenue Requirement hearing (Transcript Volume 7, pages 1072-1073) BC Hydro chief financial officer David Wong described the system of bonuses at Powerex as incentive compensation:

"If it relates to the front office staff or the sales staff, marketing and sales staff, then they would get that incentive compensation,..."

In its Revenue Requirement Decision, the BCUC described BC Hydro's bonus system as follows (F2020-F2021 RRA Decision, p. 63):

"The executive and director level positions within the management and professional affiliation are eligible to receive incentive pay, which is referred to as salary holdback and the maximum annual award is 10 percent or 20 percent of the employee's salary, depending on position. Awards are based on corporate and individual performance. Corporate performance is based on results achieved on BC Hydro's Service Plan performance measures and individual performance is based on the employee's individual performance objectives established at the start of the year and assessed by the employee's manager or for executive positions, the Board of Directors, at year-end. BC Hydro budgets to pay-out 75 percent of the maximum calculated holdback; this budgeted amount is included in the proposed 2.5 percent salary increase for management and professionals. BC Hydro explains that only one percent of management and professional employees is eligible to receive holdback pay since it is limited to executive and director level positions and notes that in fiscal 2019, actual holdback payments totaled approximately \$1.4 million, and no employees received their full holdback amount. If all employees eligible for holdback pay received their full holdback amount in fiscal 2019, the total would have been approximately \$1.7 million."

As a result of these differential incentive schemes, the heavily incented efforts of the unregulated subsidiary may actually encourage an increase in GHG emissions, by increasing the purchase of imported gas-fired electricity.

- 5.1 In your judgment, can a corporation be incented to pursue certain objectives (e.g. to sell more electricity in order to earn additional revenue and also meet government greenhouse gas reduction target) if the management of that corporation is not similarly incented to meet those same objectives?

PEG Response

Employee incentives should complement external incentives. Employee incentives are a legitimate area of BCUC oversight. After all, Section 60 1) (b) of the BC Utilities Commission Act states that “the commission must have due regard to the setting of a rate that encourages public utilities to increase efficiency, reduce costs and enhance performance.

5.2 In your experience, how often are management incentive bonus plans used by Crown corporations to achieve government objectives? Are these considered PBR measures?

PEG Response

PEG has not studied this matter.

5.3 Does PBR methodology extend to prescribing or altering the terms of the internal incentive programs for a subject utility's management?

PEG Response

PBR is traditionally viewed as a matter of *external* incentives, which will hopefully drive management to devise complementary *internal* incentives for employees. However, *internal* incentives should always be an area of regulator concern, especially in the case of publicly-held utilities. These incentives should be reviewed in each rate case and could also be a focus of pilot programs. In principle, a metric or PIM could be established for reform of management incentives.

5.4 In your experience, to what extent do regulators prescribe the terms of a utility's management incentive programs?

PEG Response

PEG has not surveyed this matter carefully but believes that management incentives are reviewed in many U.S. rate cases. Reviews of management incentive programs are typically undertaken to consider whether ratepayers should be funding them. PEG believes that most regulators limit ratepayer funding of management incentives to those measures that impact customers. Ratepayer funding of management incentives for profitability is typically not permitted.

6.0 Reference: Should the achievement of provincial GHG reduction objectives form a part of a Crown utility's performance evaluation criteria? How would PBR deal with this?

The BCUC is mandated by the B.C. Utilities Commission Act (“UCA”), which states that, when accepting a long-term resource plan or an expenditure schedule submitted by a public utility, the commission must consider not only: “(d) the interests of persons in British Columbia who receive or may receive service from the public utility.” but also: “(a) the applicable of British Columbia's energy objectives,…”

Those energy objectives are laid out by the Government in section 2 of the Clean Energy Act (“CEA”) and they include: “(g) to reduce greenhouse gas emissions…” and “(h) to encourage

the switching from one kind of energy source or use to another that decreases greenhouse gas emissions in British Columbia;” and “(i) to encourage communities to reduce greenhouse gas emissions and to use energy efficiently;...”

The Government has set a number of energy objectives which include greenhouse gas (“GHG”) reduction objectives, and it has mandated the BCUC to consider these objectives in its regulation of BC Hydro. Yet BC Hydro includes no such objectives in its own performance evaluation metrics. Instead, BC Hydro awaits specific orders from the Government, telling it specifically what actions it should take to reduce GHGs.

6.1 In your experience, how customary is it for a regulator to judge a utility’s performance using criteria that include government policy objectives, such as its GHG reduction performance relative to the potential for such reduction? And how do PBR measures accommodate such policy objectives? Please give examples from your experience.

PEG Response

GHG reduction is a legitimate concern of government, but utility regulators are often reluctant to take initiative in this area absent government mandates. For example, regulators frequently take the view that rate designs and DSM programs should not account for environmental costs of utility operations.

Once the government establishes environmental goals, regulators should aid their realization. In addition to ensuring that these goals are met, regulators should help ensure that they are met cost effectively. In many American states, one key issue is striking the right balance between distributed and utility-scale renewables. Another is the right mix of solar and wind resources. A third is the right mix of storage and load-following generation.

In some instances, utilities report their emissions or the impact of their system on emissions. These are typically not tied to PIMs. PBR provisions can aid commissions in their oversight of GHG reductions. The use of PBR to encourage GHG reductions is a focus of the current Hawaii PBR proceeding but no PIM has been finalized. In New York, Consolidated Edison’s current MRP features a PIM for beneficial electrification which encourages the deployment of various technologies (e.g., heat pumps, electric vehicles) that would reduce carbon dioxide emissions. The metric rewards the company if the lifetime avoided CO2 emissions from these technologies exceed a target.

6.2 What PBR measures are available to the Commission that would include such performance criteria?

PEG Response

PBR can encourage GHG reductions in ways that include the following.

- Weakening the link between system use and earnings removes a disincentive to promote DSM. Even though most power consumed in BC comes from renewables, an MWh saved is available for export to the States where fossil-fueled generation is widespread, especially when bulk power market prices peak.
- DSM can also be encouraged by DSM PIMs.
- Reporting of the GHG emissions tied to the Company’s direct activities (e.g., truck rolls,

buildings).

- Some loads reduce use of fossil fuels by customers. These loads can be encouraged by various means. The case of EOT loads is illustrative.
 - Exclude EOT loads from decoupling
 - PIMs for EOT load growth
 - Increase marketing flexibility for EOT loads
 - PIMs for GHG reductions

PEG has monitored the development of metrics that other regulators have approved that are related to a utility's GHG emission performance. Some examples are provided in the table below. Few of these metrics are tied to financial incentives at this time.

Table CEABC – 6.2

Recently Approved Metrics in the States

Performance Area	Metric Definition	Jurisdiction
Customer Engagement	Number (or %) of customers who have authorized utility to provide 3 rd parties with energy usage data	CA
Customer Engagement	% EV customers enrolled in time-variant tariffs	CA, HI
Customer Engagement	Number (or %) of customers enrolled in DR or dynamic pricing programs	CA, HI, IL, MA, MD, NY
Customer Engagement	Customer awareness survey of AMI technology, features, and benefits	NY
DER Utilization	Number (or %) of customers with DGS	CA, HI
DER Utilization	MWh (or %) delivered from customer-side DG	CA, HI
DER Utilization	Energy Storage Capacity	HI
DER Utilization	DG Capacity (kW)	IL
DER Utilization	Known DG capacity as a percentage of system peak	IL
DER Utilization	Sum of annualized production from DG and fuel cells plus avoided consumption from demand response, consumption by thermal storage, and charging of battery storage and EVs	NY
Greenhouse Gas Emissions	Greenhouse gas emission reductions due to reduced use and demand after AMI deployment	IL
Greenhouse Gas Emissions	Avoided metric tons of carbon dioxide emissions from beneficial electrification	NY
Peak-load management	Peak load reduction	NY
Peak-load management	Weather-normalized coincident peak demand	NY
Peak-load management	Cumulative summer/winter coincident peak demand savings	VT
Utility emissions	Number of utility vehicles that are electric	DC
Utility emissions	Total carbon dioxide equivalent emissions by business	GB
Utility emissions	Line losses	GB
Utility emissions	Sulfur hexaflouride emissions	GB
Utility emissions	Reduction in greenhouse gas emissions to respond to outage or maintenance calls	IL
Utility emissions	% reduction in emissions associated with reduced truck rolls	PA

7.0 Reference: Is the California approach possible in British Columbia? Could PBR measures bring this about?

As outlined in the article quoted below, the California Public Utilities Commission (“CPUC”) formally considers the state’s emissions goals in its regulation of utilities. It very clearly connects California’s emission goals with each utility’s resource planning and its forecast for electrification.

<https://www.utilitydive.com/news/cpuc-proposes-optimal-2030-system-portfolio-tripling-battery-storage-more/573075/>

“The California Public Utilities Commission (CPUC) is proposing to adopt a 46 million metric ton (MMT) greenhouse gas emission target for the electric sector in 2030, to keep load-serving entities on track to meet the state’s goal of supplying 100% of electricity from zero-carbon resources by 2045...

California conducts a two-year integrated resource planning cycle, with the first year focusing on a reference system portfolio — the optimal portfolio of electric resources that

takes into consideration emissions goals, reliability and affordability. In the second year, the agency reviews individual load-serving entity IRPs. The electric sector greenhouse gas target is re-evaluated every cycle.”

On the other hand, in British Columbia, BC Hydro makes no connection between its load forecasts and the provincial GHG reduction goals.

7.1 Could the California approach be implemented for BC Hydro?

PEG Response

Yes. BC Hydro should, with Commission oversight, plan to realize the government's GHG goals cost-effectively.

7.2 To what extent could PBR measures contribute to bringing this about? And what specific PBR measures would you recommend to accomplish this?

PEG Response

Please see the response to question 6.2 for some ideas.

7.3 What other additional measures or actions would be required, on the part of the utility, the BCUC, or the Government?

PEG Response

Integrated resource planning also has an important role to play.

8.0 Reference: How would PBR deal with BC Hydro's challenging circumstances?

BC Hydro's situation is extremely dynamic and is fraught with a number of challenging circumstances, including:

- The vast majority of its generation assets are located at great distances from its load centres, which requires numerous long transmission lines, great expense and delay if any new generation is added which might require additional transmission (such as site C).
- BC Hydro's capital asset base has been growing at a phenomenal pace and is expected to continue to do so. A decade ago, its capital assets were less than \$10 billion, but by 2030 it will have spent \$50 billion mostly refurbishing those assets, with only a slight amount allotted to increasing sales (\$2 billion per year for 20 years, plus Site C).
- Its domestic energy deliveries have not increased since 2006, but its revenue requirement has increased by 89% between F2008 and F2019, primarily due to the rapid growth of its capital rate base, but also due to the more than doubling of its operating costs.
- Over the same period, it has built up its Deferral and Regulatory Accounts to over \$5 billion (the equivalent of a full year's revenue requirement), in spite of the Government writing off \$1.1 billion to the taxpayers.
- Its largest capital project, Site C, is due to come online by 2025, at an as yet unknown cost,

but certain to exceed \$11 billion.

- There is tremendous potential in British Columbia for the electrification of existing fossil fueled energy production but, as yet, BC Hydro has only recognized a small percentage of this potential in its long-term planning.
- If LNG export facilities are built, as planned, they will add new fossil fueled energy production of over 10,000 GWh for the liquefaction plant plus approximately an equal amount for the upstream energy requirements. BC Hydro is not planning to electrify more than 20% of this new load.

8.1 In your experience, what other regulated utilities have coped with such a dynamic array of circumstances? And how have PBR measures been able to deal with these challenges? Giving examples from your experience wherever possible, please outline how specific PBR measures have been used to deal with each of the circumstances listed above.

PEG Response

The business conditions facing electric utilities are complicated and challenging in many jurisdictions today. The article cited in question 7 treats of the many challenges facing California utilities. Quebec, like BC, has opportunities to develop remote renewables and to replace fossil-fueled activities. Hawaii must cope simultaneously with a need for high replacement capital expenditures and a rapid transition to high renewables reliance.

Research to quantify the impact of PBR is not numerous. Revenue decoupling has facilitated growing reliance on distributed solar generation in California and Hawaii. Decoupling and DSM PIMs have encouraged DSM. Studies by the American Council for an Energy-Efficient Economy have found that PIMs have led encouraged DSM and demand response efforts.² A recent study by PEG for Lawrence Berkeley National Laboratory found that infrequent rate cases have fostered modest acceleration of power distribution productivity.³

8.2 In particular, how have PBR incentives been able to operate effectively when the accumulation of significant deferral accounts effectively insulates management (and the shareholder) from the consequences of spending decisions?

PEG Response

PEG has not studied this issue.

8.3 How would PBR measures operate to incent BC Hydro to take advantage of its electrification opportunities?

² For discussions of the effectiveness of DSM PIMs, see pages 19-34 of Nowak, S., Baatz, B., Gilleo, A., Kushler, M., Molina, M., and York, D., (2015), "Beyond Carrots for Utilities: A National Review of Performance Incentives for Energy Efficiency," American Council for an Energy-Efficient Economy Report U1504, May. The authors refer to DSM shared savings PIMs as "shared net benefits utility performance mechanisms." A discussion of the effectiveness of demand response PIMs can be found on pages 26-34 of Gold, R., Myers, A., O'Boyle, M., Relf, G., (2020), "Performance Incentive Mechanisms for Strategic Demand Reduction," American Council for an Energy-Efficient Economy Report U2003, February.

³ Lowry, M.N., Makos, M., and Deason, J. (2017). "State Performance-Based Regulation Using Multiyear Rate Plans for U.S. Electric Utilities." Ed. Schwartz, L.C. LBNL-2001039

PEG Response

Please see the response to question 6.2.

9.0 Reference: How does PBR methodology deal with competing objectives?

As a Crown utility, BC Hydro may have to balance between actions which could keep electricity rates low and actions which might raise rates but will implement government objectives. And these government objectives are often subject to significant and sudden change, as a result of political decisions.

9.1 How have PBR measures been able to deal with objectives that may conflict? For instance, one objective is to keep electricity rates from rising, while another objective may be to encourage conservation by giving customers incentives for DSM measures. Still another objective might be to achieve greenhouse gas reductions by giving a lower rate that encourages electric vehicle adoption. Since these objectives may inherently conflict, how do PBR measures find the balance between them?

PEG Response

The package of PBR measures that PEG has discussed in this proceeding illustrates how the numerous goals of regulation can be advanced simultaneously. For example, a multiyear rate plan can strengthen general cost containment incentives while making regulation more efficient so that more time can be spent on other important issues such as utility rate and service offerings. Utilities can be accorded more marketing flexibility and incentives to promote environmentally beneficial loads. However, there is rarely a guarantee that attention to these diverse objectives is balanced.

9.2 In your experience, how have PBR measures been able to cope with a potentially changeable political environment? Please give examples.

PEG Response

PEG has not carefully considered this matter.