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

Attention: Marija Tresoglavic, Acting Commission Secretary

Dear Ms. Tresoglavic:

BC Utilities Commission Review of BC Hydro's Performance Based Regulation Report Project No. 1599045
AMPC Information Request (IR) No. 1 to BC Hydro on Rebuttal Evidence

We are counsel to AMPC in this matter and write to enclose AMPC's Information Request No. 1 to BC Hydro.

Please contact the writer if you have any questions.

Yours very truly,

Matthew D. Keen

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Enclosures

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1.0 Multiyear Rate Plans

Reference: Exhibit B-8, BC Hydro Supplementary Evidence, page 11

BC Hydro states at that it supports adding a third test year to its rate plans:

Multiyear Rate Plans are intended to incent efficient performance by creating a multi-year disconnect between allowed revenue and actual costs so that a utility must perform within a pre-determined revenue envelope to achieve its allowed return. BC Hydro's current regulatory system already takes this approach by setting rates based on forecast costs for multiple years. A three-year test period would create a greater disconnect between BC Hydro's allowed revenue and actual costs.

AMPC seeks additional information on whether and how BC Hydro's use of regulatory and deferral accounts affects incentives for efficient performance.

1.1 Please reconcile the above statement with BC Hydro's continued support and use of extensive regulatory accounts, given that BC Hydro is protected from variances impacting its allowed return by the use of regulatory and deferral accounts.

1.2 With regard to capital spending, please comment on how a three-year test period would incentivize efficient performance given BC Hydro's use of regulatory accounts to capture variances between the test year and actuals (e.g., the Capital Project Investigation Regulatory Account and the Project Write-off Cost Regulatory Account, among others).

2.0 Forecast Cost Caps for Rate Setting Purposes

Reference: Exhibit A-2-5, Staff Consultant Report by Pacific Economics Group Research LLC (PEG), pages 7, 24 and 107

PEG's report states:

- "[t]he classic critique of COSR puts heavy weight on the asymmetry of information between the utility and other members of the regulatory community. It is challenging even for the managers of a utility to understand whether its operations are efficient, and how to make them more efficient" (page 7)

- "[r]egulators in several countries use statistical cost benchmarking in rate setting. The total cost, OM&A expenses, capex, and/or total expenditure (OM&A plus capital cost expenditure) performances of utilities have all been benchmarked" (page 24)

- "The BCUC has used MRPs on several occasions to regulate jurisdictional utilities … FortisBC Energy (formerly called BC Gas and Terasen Gas) is the largest gas utility in BC. It has operated under MRPs for most of the last 20

> years. These plans have, unusually, escalated budgets for OM&A expenses and certain routine capital expenditures by separate formulas of general form inflation plus growth of operating scale less an X factor. Major plant additions have been addressed separately." (page 107)

As PEG has identified, the ability of interveners and the BCUC to scrutinize a utility's operating expenses (e.g., O&M, sustainment capital) in a rate hearing is time-consuming and challenging due to information asymmetry issues. AMPC is interested in a range of mechanisms to control utility costs, including budgets and cost caps.

2.1 Please comment on the potential to implement and any implications of a cost cap mechanism over a longer-term (e.g., 5 years) for rate setting purposes for the following categories of expenses: non-deferred O&M (tied to inflation less productivity) and sustainment capital (tied to inflation less productivity). In your response, please address whether this would allow BC Hydro to better plan and prioritize spending between the two cost categories for a given year.

3.0 Regulator Instruments to Promote Efficiency

Reference: Exhibit B-8, BC Hydro Supplementary Evidence, pages 4 – 6

In the reference above, BC Hydro discusses how it does not have a profit maximizing mandate, and the BCUC's ability to regulate BC Hydro. AMPC seeks BC Hydro's perspective on the BCUC's ability to achieve its objectives in regulating BC Hydro.

3.1 From BC Hydro's perspective, given the lack of incentive BC Hydro notes it has to maximize net income, what mechanisms does the BCUC currently have to incent productivity and cost efficiencies within BC Hydro's operations?