

# IRIS LEGAL

Environmental, Natural Resources &  
Indigenous Law

VIA EFILE

January 7, 2021

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

Attention: MarijaTresoglavic, Acting Commission Secretary

Dear Ms. Tresoglavic,

**Re: Zone II RPG's Information Requests  
Project No. 1599045  
British Columbia Utilities Commission (BCUC or Commission)  
Review of British Columbia Hydro and Power Authority's Performance  
Based Regulation Report (PBR)**

On behalf of the Zone II Ratepayers Group (Zone II RPG), we submit our Information Requests on BC Hydro's Supplemental Evidence in the above proceeding.

Should you require anything further, please let us know.

Yours truly,  
IRIS LEGAL



Jana McLean  
[jana@irislegal.ca](mailto:jana@irislegal.ca)

REQUESTOR NAME: **Zone II Ratepayers Group (Zone II RPG)**

INFORMATION REQUEST ROUND NO: 1

TO: **BC Hydro on Supplementary Evidence**

DATE: **January 7, 2021**

PROJECT NO: **1599045**

APPLICATION NAME: **BCUC Review of BC Hydro and Power Authority's Performance Based Regulation Report – Project No. 1599045**

---

**1.0 Topic: The Goals of BCUC Regulation of BC Hydro**  
**Reference: Exhibit B-8 (Supplementary Evidence) page 3.**

On page 3 of its Supplementary Evidence, BC Hydro states that:

*The BCUC should have three broad goals with respect to its regulation of BC Hydro's revenue requirement: to set rates at efficient levels, to maintain adequate, safe and reliable service and to ensure financial integrity through the recovery of reasonable and prudently incurred costs and by providing an opportunity to earn a fair return on investment.*

- 1.1** Does setting rates at efficient levels also include setting rates that are reasonable and affordable to ratepayers? Please explain.

**2.0 Topic: Unique Aspects of BC Hydro that Affect the Application of PBR**  
**Reference: Exhibit B-8 (Supplementary Evidence), Section 3, Q5, A5, page 5 – 6, 9.**

On page 5 of its Supplementary Evidence, BC Hydro states that:

*First, BC Hydro's mandate is set out through a Mandate Letter and Service Plan. Exceeding allowed net income is not identified as an expectation or desirable outcome anywhere in either of these two documents. Efficiency and cost control are emphasized throughout but the focus of these efforts is to keep rates affordable for customers, not to increase shareholder returns;*

*Second, BC Hydro's actual net income is consolidated into the Government of B.C.'s financial statements. The Government of B.C. plans its budget based on BC Hydro achieving its allowed net income – no more and no less. In other words, BC Hydro is expected to achieve an actual net income that is as close to its allowed net income as possible. At the same time, the Mandate Letter and Service Plan set out expectations for BC Hydro to provide safe, reliable, affordable and clean electricity. The Government of B.C. expects BC Hydro to meet these expectations and achieve its allowed net income while keeping rates as affordable as possible;*

.....

*Fifth, BC Hydro's approach to Trade Income and the sale of surplus properties demonstrates that BC Hydro does not have a profit maximization mandate and is instead focused on affordability and keeping rates low for customers, consistent with the Government of B.C.'s expectations.*

.....

*The fact that the BCUC's ability to regulate BC Hydro only recently became less constrained has two important implications: First, it is likely to be more challenging to secure stakeholder support for an approach that would grant BC Hydro the type of increased autonomy from regulatory scrutiny, upon which PBR is predicated. Second, BC Hydro's existing regulatory framework may be able to resolve the concerns that prompted the BCUC to consider PBR, if it is given the opportunity to do so. There have been notable developments with regard to both of these implications since the start of this proceeding.*

- 2.1 Has BC Hydro identified any other mechanisms to keep rates affordable for customers, other than efficiency and cost control, or are these the primary mechanisms of doing so?
  - 2.1.1 Please explain how PBR or COSR would result in keeping rates affordable for customers in terms of efficiency and cost control. Please explain your reasoning.
- 2.2 Confirm or explain otherwise whether the Government of B.C. has advised BC Hydro that they are specifically opposed to maximizing BC Hydro's profit? Please provide details and any available documentation.
- 2.3 Confirm, or explain otherwise, whether there has been any engagement with the Government of BC regarding PBR for BC Hydro. Advise of the status of these discussions and any outcomes.

**3.0 Topic: Aspects of PBR that May Help or Interfere with the Goals of BCUC Regulation of BC Hydro**  
**Reference: Exhibit B-8 (Supplementary Evidence), Section 4, Q11, A11, page 18; Q12, A12, page 18-19.**

On page 18 of its Supplementary Evidence, BC Hydro states that:

*Fifth, the introduction of a shared savings performance incentive mechanism for conservation could discourage measures aimed at providing equitable opportunities across customer classes or targeted opportunities for certain customer groups. In other words, a shared savings performance incentive mechanism could incent BC Hydro to pursue the most cost effective DSM initiatives instead of initiatives driven by policy, regulatory or equity considerations; and*

*Sixth, shared savings performance incentive mechanisms can be complex and controversial, which could decrease regulatory efficiency.*

*All of the above considered, it is perhaps not surprising that this approach has already been tried and abandoned in British Columbia. While FortisBC was previously subject to a performance-based incentive mechanism for DSM activity, that approach was subsequently discontinued.*

.....

*Yes. While shared saving performance incentive mechanisms would not be effective, information-only performance metrics, determined through a public process with the BCUC and interveners, would provide incremental incentives to BC Hydro. BC Hydro currently reports to the BCUC on a number of performance metrics. Specifically, BC Hydro has provided Annual Service Plan performance measures as part of Revenue Requirements Applications, annual reports on reliability indices, and metrics used to manage its operations.*

- 3.1** Please provide further details on how a shared savings performance incentive mechanism could be structured to encourage equitable opportunities across customer classes or targeted opportunities for certain customer group.
- 3.2** Provide the reasons why performance-based incentive mechanism for DSM was discontinued.
  - 3.2.1** When the performance-based incentive mechanism was discontinued at FortisBC, what alternate approach was implemented for managing DSM?
- 3.3** Please identify the types of information-only performance metrics that BC Hydro knows of, other than those identified above?
  - 3.3.1** Please indicate if these are existing or new metrics.
  - 3.3.2** Confirm, or explain otherwise, if BC Hydro will include performance metrics on other initiatives, including on reconciliation efforts with indigenous communities, and progress in reducing reliance on diesel in the NIA and specifically in Zone II.
  - 3.3.3** What regulatory review process, if any, is BC Hydro proposing for the review of these information-only performance metrics? How will it otherwise make this information available?

**4.0 Topic: Scope, Process and Timing of Identified Improvements to BC Hydro's Existing Regulatory Framework**  
**Reference: Exhibit B-8 (Supplementary Evidence), Section 5, Q14, A14, page 21.**

On page 21 of the Supplementary Evidence, Mr. Kolesar states:

*"Alberta experienced an increase in regulatory filings under PBR, in part because of the nature of some of the Commission's PBR plans, for which the Alberta commission was often criticized. The Commission should carefully analyze and consider the potential regulatory burden under both COSR and PBR."*

- 4.1 Please provide an explanation of the "nature of some of the Commission's PBR plans" which led to an increase in regulatory filings under PBR in Alberta.
- 4.2 Provide any details on the increase in regulatory costs associated with PBR (vs. COSR) in Alberta.

**5.0 Topic: Dr. Dennis Weisman – Supplementary Report**  
**Reference: Exhibit B-8 (Supplementary Evidence), Appendix A, page 18 of 19.**

On page 19 of 19, Dr. Weisman states in his conclusion that:

*As a final observation, it is conceivable that the cost-benefit test for a formal PBR regime is likely to be more difficult to pass in the case of BC Hydro. The specific form of cost-of-service regulation under which the company currently operates is properly characterized as a form of PBR. Moreover, with a three-year (or longer) test period this type of regulatory regime may well give rise to greater incentive power than an indexed form of PBR with a term of 5 years that incorporates a significant earnings-sharing component. This suggests that at least in terms of incentive power, the Commission may well be taking a step backward if it opted for this type of PBR regime.*

- 5.1 Please confirm, or explain otherwise, that Dr. Weisman is of the opinion that continuing with the status quo – COSR – is in the best interests of BC Hydro, the Commission, its ratepayers and shareholder.

**6.0 Topic: Mr. Mark Kolesar – Submission**  
**Reference: Exhibit B-8 (Supplementary Evidence), Appendix B, page 8 of 18; Appendix A, page 17 of 19.**

On page 8 of 18, Mr. Kolesar states that:

*A matter to be considered by the Commission in this proceeding is whether BC Hydro, as a public enterprise, will be in a position to adequately respond to the more powerful incentives to seek out productivity improvements offered by PBR, given the absence of a mandate to maximize profits. In other words, will the expected gains from adopting PBR be fully realized.*

On page 17 of 19, Dr. Weisman states that:

*The regulated firm may still have strong incentives to meet or exceed these performance metrics even though there are no financial rewards or penalties directly associated with compliance or non-compliance. This underscores an important observation that financial incentives are not the only type of incentives that can be used to motivate superior performance.*

- 6.1** Please comment on whether BC Hydro is of the view that it requires an explicit mandate to maximize profits as an incentive in order to be successful in implementing PBR.
- 6.2** Please provide pros and cons for BC Hydro having a specific mandate to maximize profits.