

REQUESTOR NAME: **BCOAPO**
INFORMATION REQUEST ROUND NO: **1**
TO: **BRITISH COLUMBIA HYDRO & POWER
AUTHORITY**
DATE: **JANUARY 7, 2021**
PROJECT NO: **1599045**
APPLICATION NAME: **BCUC REVIEW OF BC HYDRO'S PBR
REPORT**

1.0 Reference: Exhibit B-8, page 3

- 1.1 Please explain more fully what is meant by the first goal – “to set rates at efficient levels”.
- 1.2 Please explain how BC Hydro’s and the BCUC’s use of fully allocated cost of service analysis in setting rates aligns with the goal “to set rates at efficient levels”.
- 1.3 Would BC Hydro agree that as well as ensuring “financial integrity through the recovery of reasonable and prudently incurred costs” a related goal of the BCUC should to ensure that rates are fair and reasonable in that they only include prudently incurred costs required to deliver the service provided by the utility?
 - 1.3.1 If not, why not?

2.0 Reference: Exhibit 8, pages 5 and 7

Preamble: The Supplementary Evidence states: “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” (page 5).

At page 7 the Supplementary Evidence references Mr. Kolesar’s evidence that “under PBR, it is most likely BC Hydro will seek productivity improvements sufficient to earn the return expected by its shareholder, but no more”.

- 2.1 With respect to Mr. Kolesar’s evidence, in BC Hydro’s view, would not the same be the case under COSR – that BC Hydro would seek productivity improvements sufficient to earn the return expected by its shareholder – but not more?
 - 2.1.1 If not, please explain why?
- 2.2 Given the Mandate Letter and Service Plan emphasis on efficiency and cost control, is one of the key considerations in choosing between COSR and PBR (and variations therein) a matter of which approach is best at

determining and incorporating into rates the appropriate level of prudently incurred costs for the test period inclusive of the efficiency improvements that BC Hydro should reasonably be expected to achieve during the test period?

3.0 Reference: Exhibit 8, pages 7 and 8

Preamble: The Supplementary Evidence references Mr. Kolesar's evidence that "under PBR, it is most likely BC Hydro will seek productivity improvements sufficient to earn the return expected by its shareholder, but not more" (page 7).

The Supplementary Evidence states: "In addition, it is important to recognize that the public may not accept profit maximization as a legitimate objective of a Crown Corporation" (page 8).

3.1 Is it reasonable to also expect the public to not accept inefficiencies in the operation of BC Hydro?

3.2 Given that BC Hydro is most likely to only seek productivity improvements sufficient to earn the return expected by its shareholders, is it possible for BC Hydro, if regulated based on COSR, to adequately demonstrate to the public that it is operating efficiently?

3.2.1 If yes, how?

4.0 Reference: Exhibit B-8, page 11

Preamble: The Supplementary Evidence states:
"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."

4.1 Is it correct that the above statement only applies to costs that are not subject to "pass through" where any differences between actual and forecast costs are eventually recovered from/refunded to customers?

4.1.1 If not, why not?

4.2 For those cost elements that are subject to "pass through" would it not be the case that extending the test period would lead to less frequent reviews/testing of how these costs are derived and thus likely higher costs/less efficient operations?

4.2.1 If not, why not?

4.3 Is it not the case that the longer the test period the more difficult it is to forecast what would be considered reasonable and prudently incurred costs for the duration of the period?

4.3.1 If not, why not?

4.3.2 If yes, is there a balance that must be achieved between incenting efficiency and ensuring rates have a basis in reasonable costs?

5.0 Reference: Exhibit B-8, page 14

Preamble: The Supplementary Evidence states:
“replacing a multi-year cost forecast with an index or formula, may cause the BCUC or interveners to be less certain about whether allowed revenue has been set too high or may cause BC Hydro to advance mechanisms that guard against the possibility that allowed revenue was set too low”.

5.1 Given the uncertainty inherent in longer term (as opposed to shorter term) forecast of costs is there not also the potential under COSR and a multi-year cost forecast that the allowed revenue may be set too high or too low – particularly towards the end of the test period?

5.1.1 If not, why not?

5.1.2 If yes, does BC Hydro anticipate the need for any mechanisms to address this issue and, if yes, what would they be?

6.0 Reference: Exhibit B-8, page 15

Preamble: The Supplementary Evidence states:
“Statistical benchmarking studies would help to address any concern with regard to information asymmetry or upward forecasts if multi-year cost forecasts are used to determine allowed revenue. These studies can provide another tool for the BCUC to set rates at efficient levels. BC Hydro provided a benchmarking study as part of its Fiscal 2020 to Fiscal 2021 Revenue Requirements Application”.

6.1 What types of statistical benchmarking studies does BC Hydro anticipate undertaking?

6.2 Please explain how these statistical benchmarking studies (and statistical benchmarking studies in general) would help to address any concern with regard to information asymmetry or upward forecasts.

6.3 If not addressed in the foregoing response, please outline precisely how BC Hydro anticipates the results of statistical benchmarking studies would be used in establishing the revenue requirements for test years of a multiyear rate plan. For example, if benchmarking results were available for particular cost elements, would the results be used to determine the level of costs to be included in BC Hydro’s revenue requirement for those specific cost elements?

7.0 Reference: Exhibit B-8, page 16

Preamble: The Supplementary Evidence states:
“The incentive for BC Hydro to pursue low carbon electrification is two-fold: (1) to help our customers and the Government of B.C. to achieve their objectives with regard to the reduction of greenhouse gas emissions, and (2) to generate incremental tariff revenue that

can help to offset cost pressures and keep rates low for customers.”

- 7.1 If BC Hydro is incented to meet the return targets established by its shareholder (but no more), please how explain how full revenue decoupling provides a greater incentive to achieve these ends (i.e., (1) to help our customers and the Government of B.C. to achieve their objectives with regard to the reduction of greenhouse gas emissions, and (2) to generate incremental tariff revenue that can help to offset cost pressures and keep rates low for customers) .than an approach that set aggressive targets for low-carbon electrification revenues and employed no revenue decoupling (i.e., no full or partial true up of forecast vs. actual revenues).

8.0 Reference: Exhibit B-8, pages 18-19

Preamble: The Supplementary Evidence states:

“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”

The Supplementary Evidence also references Dr. Weisman as follows:

“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”.

- 8.1 Please explain how/why information-only performance metrics would provide incremental incentives to BC Hydro?
- 8.2 Can BC Hydro demonstrate/indicate how it current performance metrics (as set out in its Annual Service Plan) have incented BC Hydro’s past performance?

9.0 Reference: Exhibit B-8, Appendix A, page 9 (paragraph 22)

Preamble: In his Supplementary Report Dr. Weisman states:

“the use of X factors in PBR plans provides an external benchmark for performance”

- 9.1 Can the establishment of the X factor be viewed as form of statistical benchmarking?
- 9.1.1 If not, why not?
- 9.1.2 If yes, how does it differ from the statistical benchmarking that BC Hydro is proposing to undertake (per Exhibit B-8, page 15 and 20)?

9.1.3 Could a properly determined X factor play a role in establishing the appropriate cost forecast to be used in a multiyear COSR-based rate plan?

9.1.3.1 If not, why not?

9.1.3.2 If yes, how?

10.0 Reference: Exhibit B-8, Appendix B, pages 4 and 10-12 of 18

Preamble: In his Submission (page 4) Mr. Kolesar states that the Commission should seek to achieve a balance among a number of objectives.

10.1 Please clarify what “results” Mr. Kolesar is referring to in stating “The regulatory regime should emulate the results achieved in a competitive market to the greatest extent possible”. In particular does it include any “results” apart from those discussed on page 10, namely i) constrain the utility from exercising monopoly power and ii) create incentives for the utility to seek productivity improvements?

10.2 One of the referenced objectives is that the regulatory regime should provide an opportunity for BC Hydro to recover its prudently incurred costs and earn its fair return. Would Mr. Kolesar agree that the regulatory regime should ensure that rates are fair and reasonable in that they only include prudently incurred costs required to deliver the service provided by the utility?

11.0 Reference: Exhibit B-8, Appendix B, pages 5-8

11.1 In Mr. Kolesar’s view, is it fair to conclude from the discussion that COSR and PBR (as well as any hybrid variations) are simply different approaches to establishing a multi-year revenue trajectory for a regulated utility?

11.1.1 If not, why not?

11.2 Is it also fair to conclude that earning sharing under PBR and the use of flow-through accounts under COSR are both mechanisms for truing up variances between forecast and actual costs and/or revenues?

11.2.1 If not, why not?

12.0 Reference: Exhibit B-8, Appendix B, pages 9 and 12

Preamble: In his Submission (page 9) Mr. Kolesar states that:
“BC Hydro is expected to earn and provide to its shareholder, the government of British Columbia, a net income in the amount required by Direction 8. There is no expectation for the Company to deliver a net income in excess of that amount. Indeed, any earnings in excess of that amount may be viewed as unpalatable, as they may lead to allegations that rates have been higher than they otherwise should have been.”

Mr. Kolesar also states (page 12):

“The analysis and discussion above concluded that, under PBR, it is most likely BC Hydro will seek productivity improvements sufficient to earn the return expected by its shareholder, but no more”.

12.1 With respect to the statement on page 12, would Mr. Kolesar agree that the same applies to COSR in that under such a regulatory regime “it is most likely BC Hydro will seek productivity improvements sufficient to earn the return expected by its shareholder, but no more”?

12.1.1 If not why not?

12.2 In Mr. Kolesar’s view, if (per page 4) BC Hydro currently has an “incentive” not to achieve efficiencies or additional revenues beyond those necessary to achieve its mandated level of net income which regulatory regime (PBR, COSR or some hybrid) is best suited to encouraging BC Hydro to pursue all practical efficiencies and additional revenues so as to limit future rate increases and what elements should specifically be included in the design to achieve this end?