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March 31, 2021

British Columbia Utilities Commission
Suite 410, 900 Howe Street
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Attention: Mr. Patrick Wruck, Commission Secretary

filed online

Dear Mr. Wruck:

Re: British Columbia Utilities Commission (BCUC) Generic Cost of Capital Proceeding: MoveUP Submission on the Preliminary Scoping Document

We are counsel for MoveUP, the trade union that represents the “inside” workforces of BC Hydro, FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC).

We have reviewed the submission filed on March 29 by FEI and FBC (Exhibits B1-2 and B2-2). Except as indicated below, MoveUP endorses the analysis and recommendations provided by those companies.

a. Whether the BCUC should establish the Cost of Capital effective January 1, 2022, including public utilities’ capital structure and return on common equity.

We agree that these are times of exceptional uncertainty in relation to the emergence of the provincial, national and global economies from the COVID-19 pandemic. FortisBC’s suggestion that the time-frame of the proceeding be extended one year presumes that the amplitude of economic volatility will subside over the coming months. The probability that this will be borne out is difficult to assess, but we submit that it is a realistic point of departure.

On the other hand, it is not clear to us how postponing the completion of the process, as FortisBC suggests, meshes with the optimal time-line to determine BC Hydro’s cost of capital. We leave it to Hydro to address that question, as need be.

Subject to those observations, MoveUP does not take any particular position on the timing of the effective date of a revised Cost of Capital and is content to proceed with whatever schedule the Commission considers best.

b. Should the BCUC continue to establish public utilities' Cost of Capital using a two-stage mechanism, where Stage 1 sets the Benchmark ROE based on a Benchmark Utility, and Stage 2 uses a generic methodology for each utility to determine its unique Cost of Capital in reference to the Benchmark Utility?

i. If so, should the Benchmark Utility continue to be FortisBC Energy Inc., a hypothetical utility, or some other entity?

ii. Otherwise, should all utilities have an independent review process to establish the Cost of Capital?

iii. Can certain public utilities be grouped together, where the BCUC establishes the Cost of Capital for the group? What are the characteristics for such grouping(s)?

MoveUP agrees with FortisBC that the best approach would be to continue with the established methodology, and that FEI should continue as the Benchmark Utility. This process combines regulatory efficiency with consistency of outcomes. We endorse the companies' discussion regarding the choice of FEI as Benchmark, and regarding the disadvantages of constructing a hypothetical utility, conducting independent reviews for each regulated utility, or grouping certain utilities together.

However, we submit that the process should be structured to take fuller and more explicit account of the diverging impact of climate policy and climate-driven market dynamics, as between gas and electric utilities. This will continue to emerge as a dominant theme in the regulated energy sector, and to establish differentiated trajectories for distributors of the two energy commodities. It is already being seen in the issues at the top of the regulatory agenda: for gas utilities, the challenges of meeting ambitious RNG targets, the prospect of plateauing and even contracting market opportunities, and the risk of stranded capital and human resources, on one hand; on the other, for electric utilities the challenge of constructing infrastructure and securing sufficient energy supply to meet growing demand in the course of electrification.

These divergences will inevitably be reflected in the utilities' cost of capital.

This issue is raised briefly in the Staff Submission, Exhibit A2-1:

- Consideration for contextual issues and market trends in determining the cost of capital and its components, including but not limited to a regulated utility's operational environment, reference to the cost of capital methodology applied in other comparable jurisdictions, a regulated utility's risk exposure, regulatory and public policy context, green bonds and environmental, social, and governance investing, and impact due to the COVID-19 pandemic;

It is referenced tangentially in FortisBC's scope submission:

Some of the political/policy risks associated with FEI are specific to natural gas utilities; however, the BCUC has never considered this to be problematic when making comparisons with other BC utilities for the purposes of assessing relative cost of capital. This same issue would exist no matter what utility is selected, as all utilities may have risks that are specific to their operations and service territory. Differences can be considered when determining the appropriate discount or premium for other utilities.

This question is about more than tweaking the projected cost of capital. It is a directional divergence with significant implications, ranging from the near-term to the more extended future.

Rather than segregate the proceedings into two groups of utilities, MoveUP submits that the efficient way to build the gas/electric differentiation of climate policy impacts into the GCOC process is to define it as a discrete subject-matter, so that a well-founded basis is laid to explicitly apply it to the determinations for each utility. The analysis that this would produce would also provide a valuable regulatory tool in a range of future Commission proceedings.

c. What considerations should be made for the initial transition year January 1, 2022 to December 31, 2022 (e.g. setting rates for all utilities that may be affected by the GCOC proceeding's decision on an interim basis until a final decision is rendered)?

-and-

d. Whether re-establishment of a formulaic ROE AAM is warranted. If a return to the use of a formulaic ROE AAM is accepted, what are the specifications of such a formula and should it be implemented starting on January 1, 2023 on an annual basis?

MoveUP adopts FortisBC's responses to these two questions.

All of which is respectfully submitted.

Yours very truly,

ALLEVATO QUAIL & ROY

A handwritten signature in blue ink, appearing to read 'Jim Quail', is written over a light blue rectangular background.

per **Jim Quail**
Barrister & Solicitor