



April 1, 2021

Sent By E-mail

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Your reference project No. 1599176	Our reference 1000388060
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Dear Mr. Wruck:

British Columbia Utilities Commission - Generic Cost of Capital (“GCOC”) Association of Major Power Customers of BC (“AMPC”) - Scoping Matters

We are counsel to AMPC in this matter and write on its behalf to provide comments about GCOC scoping matters. AMPC requests that the Commission accept this late submission and submits that no party will be prejudiced by it in the circumstances.

AMPC members are industrial BC Hydro customers. The amount of shareholder return in rates is one of the most important issues impacting electricity competitiveness in BC. AMPC has been a leading intervener in past GCOC processes, during periods when those processes affected BC Hydro rates. As a prefacing comment, given the current conditions of financial markets, the economy, and the five years elapsed since the last GCOC-related proceeding, AMPC understands why the BCUC has determined that it may be fair to revisit the level of investor-owned utility return on equity (“ROE”) in rates. AMPC likewise concurs with FortisBC Energy Inc.’s (“FEI”) comments that the risk level to utilities has not substantially changed (especially in BC Hydro’s case, given its extensive use of regulatory and deferral accounts to capture cost variances).

AMPC has no additions or deletions to suggest to the Commission’s scoping questions. Rather, AMPC requests that for efficiency purposes the Commission rule now that BC Hydro falls outside the scope of this GCOC proceeding. A brief assessment of how the current scoping questions fit BC Hydro is instructive and explains why the Commission should take this step:

- Concerning scope questions (a) and (c) about 2022 and “transition year” mechanics, Order in Council (“OIC”) 172/2021 makes the issue moot for BC Hydro customers. BC Hydro’s net income has been legislated and will not be set by the BCUC for F2022 and F2023.
- Concerning scope question (b), about a two-stage mechanism to define and apply a “Benchmark ROE”, the benchmark utility approach ignores BC Hydro’s circumstances as a government-owned public utility, plus BC Hydro has a forthcoming cost of capital application and, again, OIC 172/2021 has decided the issue for F2022 and F2023 rates. Setting shareholder returns for an investor-owned utility based on global and Canadian market conditions adheres to the fair return standard, and the underlying premises

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of investor risk and regulation as a proxy for competition. Conversely, a fair shareholder return for BC Hydro should assess issues that include the Crown's invested equity, the impact of taxpayer-driven policy decisions on rates, risk exposure after taking into account the effect of mechanisms like regulatory accounts, and the extent of benefits that BC Hydro provides to government.¹

The BCUC should ideally direct BC Hydro to combine its forthcoming F2023-2025 Revenue Requirement Application with its Cost of Capital Application (which will consider shareholder return), both intended for the second half of calendar 2021. Presently three overlapping proceedings will deal with how shareholder return is recovered in BC Hydro's F2024-F2025 rates (F2023, again, having been established by legislation). This is inefficient, and resource constraints prevent AMPC, and likely some other interveners, from meaningfully participating in three simultaneous technical proceedings. But independent regulation of the amount of allowable return in rates for BC Hydro remains important, and indeed is necessary to be consistent with generally accepted accounting principles and the practices of other Canadian Crown-owned utilities.² A traditional, single proceeding that contains a record with all of the content relevant to BC Hydro's circumstances and necessary to establish a fair return is a more efficient and better approach. At minimum, the BCUC should make clear that GCOC rulings will not apply to BC Hydro given its pending applications.

- Concerning scope questions (d) and (e), about automatic adjustment mechanisms ("AAMs") and deemed interest rates, AMPC does not expect either would ultimately apply to BC Hydro rates. Notwithstanding BC Hydro's intended Cost of Capital Application for the F2024-2025 test years, government directly established BC Hydro's return to the shareholder for F2012-F2023, and there is no basis for deemed interest rates as it relates to BC Hydro.

Please contact the undersigned if you have any questions.

Yours very truly,



Matthew D. Keen
Partner

MDK/roe

¹ Also see AMPC Final Argument, pp. 26-27, BC Hydro F2020-F2021 RRA, Proceeding 1598990.

² Office of the Auditor General of British Columbia, *Rate-Regulated Accounting at BC Hydro*, February 2019, p. 13.