

**BC HYDRO REBUTTAL EVIDENCE
DIRECT TESTIMONY OF STEVE HOBSON**

- Q. Please state your full name and position.
- A. My name is Steve Hobson. I hold the position of Manager, Marketing, Customer Care & Power Smart.
- Q. What is the purpose of this direct testimony?
- A. This rebuttal evidence is filed on behalf of BC Hydro, in partial response to the evidence of Dr. Marvin Shaffer on behalf of the BC Old Age Pensioners *et al* ("BCOAPO") and the evidence of Roger Belland and Harvie Campbell on behalf of the Independent Power Producers Association of BC ("IPPBC").
- Q. Have you read that evidence?
- A. Yes.
- Q. Please compare BCOAPO's methodology for calculating the Rate Impact Measure (RIM) with BC Hydro's methodology.
- A. In either case, the *net present value* (NPV) of the RIM equals avoided supply costs – (lost revenues + utility costs). Thus, both approaches yield the same net benefit or net cost to ratepayers, as long as other assumptions remain the same.
- Q. Are the RIM benefit-cost ratios in Tables 1 to 4 of BCOAPO's evidence therefore the same as the RIM benefit/cost ratios that BC Hydro would calculate?
- A. No. Although both BCOAPO and BC Hydro calculate a RIM benefit/cost ratio, the BCOAPO evidence indicates at p. 15 that the RIM ratio was calculated as (avoided supply costs - lost revenues)/utility costs. This is not the approach used by BC Hydro nor the standard approach used by North American utilities, as set out in the *California Standard Practice Manual: Economic Analysis of Demand Side Management Programs and Projects, October 2001* ("*CPUC Standard Practice Manual 2001*"), a frequently cited reference on DSM cost-effectiveness analysis.¹
- The *CPUC Standard Practice Manual 2001* defines RIM benefits on p. 13 as avoided energy supply costs; it defines RIM costs as the sum of utility DSM costs (that is, program administration costs and incentives) and lost revenues. The BCOAPO formula, in contrast, defines RIM benefits as the difference between avoided energy supply costs and lost revenues.

¹ Attached to the direct testimony of Penny Cochrane, Commercial Energy Consumers of British Columbia, and also attached to this rebuttal evidence.

The BCOAPO benefit/cost ratio is thus simply a variant of the RIM test. Regardless of which ratio is used, the *value* of RIM (that is, the net benefit or cost to ratepayers) remains the same, and is the more important indicator of distributional impact.

Q. Please compare IPPBC's methodology for calculating the Rate Impact Measure (RIM) with BC Hydro's methodology.

A. At pages 14 to 16 of the IPPBC evidence, Mr. Belland develops a test that he labels "ERIM." This test is mathematically identical to that used by Dr. Shaffer and has no effect on the NPV calculation of the RIM, which is common to all of BC Hydro's, BCOAPO's, and IPPBC's evidence.

Q. Please compare BCOAPO's methodology for calculating avoided energy supply costs with BC Hydro's methodology.

A. Page 10 of the BCOAPO evidence suggests that the Mid-C market value is an appropriate measure of BC Hydro's avoided supply costs. This misconstrues the intent of clause 6.6 in the Power Smart Incentive Program Agreement—Industrial Load Displacement Projects.²

Clause 6.6 is an anti-gaming provision that protects BC Hydro against a situation in which the customer fails to displace the contracted load, while simultaneously generating power for market sales. In such an event, the Agreement takes away any market sales gain by applying to the gain the prevailing market price, defined as the greater of Mid-C or BC Hydro's transmission service rate prevailing at the time of default. Also, such an event would still require the customer to provide the contracted load displacement. The Agreement does not reflect the long-run value that BC Hydro places on the displaced electricity over the life of the project.

The avoided cost value used to evaluate individual incentives is based on the long-run market price forecast at the time the evaluation is done; substituting a short-term price intended to avoid gaming is an inappropriate measure of the BC Hydro's long-run avoided energy supply costs.

Q. Does this complete your rebuttal testimony?

A. Yes.

² See BC Hydro's response to BCOAPO IR 1.89.0(e), Attachment 1, page 8 of 20.