

BRITISH COLUMBIA UTILITIES COMMISSION

**IN THE MATTER OF THE UTILITIES COMMISSION ACT
S.B.C. 1996, Chapter 473**

and

**British Columbia Hydro and Power Authority 2004/05 and 2005/06
Revenue Requirements Application**

and

**An Application by British Columbia Transmission Corporation for
Approval of an Application for Deferral Accounts**

Vancouver, B.C.
May14, 2004

REPLY TO OPENING STATEMENTS

BEFORE:

R. Hobbs,	Chairman
L. Boychuk,	Commissioner
M. Birch,	Commissioner

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CAARS

VANCOUVER, B.C.

May 14, 2004

(PROCEEDINGS RESUMED AT 10:42 A.M.)

THE CHAIRPERSON: Please be seated. Good morning. Mr. Fulton, would you like to respond to my request to the staff, maybe before Mr. Sanderson speaks?

MR. FULTON: Yes, thank you, Mr. Chairman.

There were only two items on the part 3 of Exhibit B1-28 that I wish to address. The second item has a couple of additional items. The first is the fourth bullet, the IEP as it relates to expenditure outside of the REAP. And this, for us, was more a matter of clarification. Mr. Sanderson spoke to that item at page 211 of the transcript and if the position being adopted is that we will still be able to compare what's in the REAP to other alternatives, then we're fine with that. If we're not going to be able to make the comparison to those other alternatives, we take the position that we ought to be able to do that. And the example that I would put forward is the example relating to the IPP contracts provided for in the REAP. The IEP refers to the long-term price of electricity as part -- in part 5, and staff would like to be able to test the proposals that are made in the REAP relative to the IPP contracts in light of the long-term market price of

1 electricity that is in the IEP. So that's the example
2 from a comparative standpoint. It's not to drill down
3 into the IEP, it's to make that comparison from a
4 contextual standpoint.

5 The last area relates to item 6 in part 3.
6 Certainly staff agrees that some of those matters should
7 be outside the scope of the hearing -- the rate design
8 of BCTC, for example. The planning process as an
9 expansion plan could also be outside the scope of the
10 hearing unless, in our submission, they relate to the
11 test period 2005/2006. So planning and expansion plans
12 that impact on that period, we say should be an issue in
13 the hearing; those that are for a longer period should
14 not.

15 Insofar as the BCTC revenue requirement in
16 2006 is concerned, there are certain costs that will
17 affect the B.C. Hydro revenue requirement. B.C. Hydro
18 has asked for a deferral account, but it's going to be
19 up to the Commission to determine whether or not that
20 deferral account is approved. So, from the position of
21 staff, staff wants to test that area as well, and that
22 area again is one more of clarification. We don't
23 intend to obviously go far into that area, but we want
24 to be able to have the ability to test to see what
25 impacts there may be on B.C. Hydro if the deferral
26 account is not approved by the Commission.

1 MR. SANDERSON: I'm ahead of myself apparently.

2 THE CHAIRPERSON: We do have a copy.

3 MR. SANDERSON: Let me then explain what this document
4 does, and let me first give primary credit to the form
5 of the document to Commission staff; that is, what we
6 did was take the Commission staff's document and edit to
7 it. And so as I walk you through this, the edits you're
8 going to see and the deletions and the additions are
9 deletions and additions from the Commission staff letter
10 from the day before yesterday. And what we've tried to
11 do is capture everybody's issues. We haven't tried in
12 Part A to be selective. We've tried to group and we've
13 tried to use the structure of the staff letter, because
14 we thought it was useful to not just capture the issues
15 but also capture where they're going to be dealt with so
16 people aren't surprised that a panel that's already gone
17 was the one that we had thought would deal with their
18 particular issue. So we tried to really update the
19 panel responsibility chart at the same time that we've
20 done the issue list, and the staff structure facilitated
21 that.

22 So if you look to the first page as a simple
23 for instance, the first bullet and sub-bullet is
24 straight out of the staff letter. There's no crossing
25 out, there's no bold, so that means that's the way the
26 staff list appeared.

1 The second issue has deleted some matters and
2 added some references. Now, the reason for the
3 deletions is not because we're not acknowledging the
4 appropriateness of that part of the issue, but rather
5 we're respectfully suggesting that our witnesses are
6 going to be better able to deal with that in Panel 2.
7 So where it says in bold at end, "Moved in part to Panel
8 2," the deleted portions above have been moved to Panel
9 2. And then we've also listed in bold, other
10 intervenors who raised these issues and who we think
11 these words capture their issues.

12 One other thing I should just mention in
13 passing that we've done is you'll see we've removed the
14 references. Everybody had different references and it
15 would have made this document overwhelming to try and
16 capture every cross-reference to the evidence, so we
17 haven't tried to do that. But I think that flows from
18 our earlier basically assignment of responsibility, at
19 least for the Hydro evidence, to the different panels.
20 So you've got on a separate sheet submitted by us some
21 time ago, which IRS are the responsibility of which
22 panel. And so that combined with this should give you a
23 pretty clear roadmap to where we anticipate virtually
24 everything is going to be dealt with.

25 THE CHAIRPERSON: I think that works fine. We will
26 continue to benefit from the references that you

1 provided yesterday. One of the purposes of those
2 references was to assist the panel in understanding the
3 issue or issues that you identified. And so I think,
4 Mr. Sanderson, what you've done works well, and I did
5 want to add that we will continue to benefit from the
6 references that were given yesterday. Thank you.

7 MR. SANDERSON: Sure, sure, and they'll still be true to
8 this document with the sole exception of the things that
9 we've suggested at least move to a different panel.

10 **Proceeding Time 10:52 a.m. T03**

11 So simply following through that logic then,
12 you'll see that on the 1.1 deferral accounts, we've
13 suggested that the line-by-line appropriateness of
14 certain items for deferral, and the mechanics, be moved
15 to Panel 1. And one witness in particular, on Panel 1,
16 will be ready to deal with all of those mechanics and
17 the line-by-line decision making that went into the
18 deferral account proposals. The broad philosophical
19 issue of what is the deferral account for, and what
20 policy should apply generally, we would anticipate the
21 policy panel will be prepared to deal with.

22 The next issue probably of note -- you'll
23 notice there's no 1.5 and that's because of the one
24 issue that was dropped. 1.6, capital structure for
25 Panel 1 and/or Panel 1, and the equity component, that
26 whole question, insofar as at least as we accept its

1 relevance, we think should be dealt with in Panel 2.
2 Panel 2 is the finance panel and that's where everything
3 about the mechanics of calculating the cost of capital
4 and the mechanics of the debt, and all of that, we hope
5 will be dealt with. And I'll come back at the end of my
6 remarks to a more specific comment about the debt/equity
7 ratio issue when I get to the end.

8 There are some new issues that Panel 1 will
9 be responsible for that were identified by various
10 parties yesterday. We've tried to capture those fairly.

11 IPPBC raised the relevance of the Energy Plan
12 to the proceeding and I think perhaps them, and
13 certainly Terasen, raised the MLA review with respect to
14 the Burrard Generating Station. Various parties raised
15 issues around the incremental costs arising from the
16 creation of BCTC and in part, at least, to the extent
17 there's policy issues there, that's Panel 1. As also is
18 the overall relationship between the two organizations.
19 And then finally we've seen both here, and probably in
20 the press and elsewhere, suggestions that there should
21 be sort of gross cuts to OMA levels or expenditures, and
22 again that broad policy issue that that raises would be
23 appropriately addressed to the first panel.

24 If we then move to Panel 2, on page three,
25 we'll just see that the flip of what we've seen in Panel
26 1; that is, we'll see the detail moved into Panel 2 and

1 the policy anticipated in Panel 1. The policies and
2 approvals for upgrades and the disposition of Burrard,
3 little bit of policy there, but there's also specific
4 panels dealing with two aspects of Burrard. And maybe
5 this is a useful place to make the distinction.

6 Burrard, in terms of its operating in the
7 short term, is a generation issue; how to run the
8 Heritage assets. And that will be dealt with by the
9 generation panel, which is Panel 7. I appreciate
10 there's a longer-run issue associated with Burrard
11 that's been raised and that is, where does it fit in to
12 the cost of energy in the long term plan for Hydro and
13 the REAP; and that is a Panel 4 issue. So I appreciate
14 that may be a tricky distinction to make, I would
15 encourage people with long-term planning issues around
16 Panel 4 to address -- sorry, around Burrard to address
17 it to Panel 4. If it raises an operating issue, then
18 they'll get deferred to Panel 7, but I guess I would
19 encourage people to, if in doubt, raise it with Panel 4,
20 and it can be re-allocated after that.

21 The next significant addition, I guess, on
22 finance is the equity component effective income tax
23 rate for a tax return on equity. That was an issue that
24 wasn't quite as fully expressed in the staff list, but
25 was by a number of parties, and so we've tried to
26 capture that. Again, to some extent, that was, by

1 staff, raised with Panel 1, and we think it probably
2 fits better with Panel 2.

3 Generally accepted accounting principles,
4 there are some specific issues there raised. And I
5 guess I just want to stress here that there's a pretty
6 obvious distinction, I think, between the "How do you
7 treat the costs?" and "How do you justify the costs?".

8 **Proceeding Time 10:57 a.m. T4**

9 Panel 2 will be how you treat them; that is,
10 do you depreciate them, do you create deferral accounts,
11 those kinds of questions. What is the GAAP treatment?
12 But we don't want to burden Panel 2 with "Why are the
13 costs what they are?" There is a panel lying behind
14 every cost item, which will come later, and that will be
15 the appropriate place to address those sorts of
16 questions.

17 THE CHAIRPERSON: Mr. Sanderson, since we're on the topic
18 of depreciation rates, let me make this observation and
19 it may not be correct. My impression is is that
20 although throughout the evidence there are comments made
21 with respect to depreciation rate changes, they're not
22 succinctly found in any one place in the materials that
23 have been filed to date.

24 MR. SANDERSON: As in a comprehensive depreciation study
25 that discusses the topic fully and specifically, you
26 mean?

1 THE CHAIRPERSON: No, simply a schedule that shows all of
2 the depreciation rate changes that you're seeking
3 approval for in this application. I'll leave that with
4 you, and on Tuesday morning if you can identify for me
5 where that is in the evidence, that will be helpful. If
6 it isn't yet in the evidence, if you could file that for
7 me, that would be helpful, and it's really just a list
8 of the depreciation rate changes that you are proposing
9 in this application.

10 MR. SANDERSON: Yes, of course, Mr. Chair, we'll do that.
11 You're anticipating that I can't do that right now but I
12 will happily do it Tuesday morning.

13 THE CHAIRPERSON: Okay.

14 MR. SANDERSON: And then the balance of page 4 I guess just
15 lists some additional issues in bold. All of the add-
16 ons are in bold. And as well, you'll note on page 4 and
17 this is a general comment, there are some capitalized
18 bolds which are our editorial comments, indicating that
19 an aspect of the issue that's being raised is being
20 dealt with somewhere else. And so for instance on post-
21 retirement benefits, Panel 2 will deal with two aspects
22 of post-retirement benefits. One is their valuation,
23 that is, what is -- and in particular, what is the
24 pension portfolio worth, and that will be dealt with
25 through Treasury on Panel 2. Also on Panel 2, how do
26 you account for these post-retirement benefits properly,

1 and what are the GAAP rules and changes concerning that.

2 But the question of are the post-retirement
3 benefits, pensions and otherwise, at the appropriate
4 level, and what were the personnel policies that led to
5 the level they're at, that's Panel 3, which is again the
6 backup for the -- the why of the numbers is always a
7 later panel.

8 And then the next big item worth noting
9 probably is the deferral account issue. We've moved
10 most of that from Panel 1 into this panel, and as I say,
11 there'll be someone on this panel who's capable of
12 dealing with all deferral account issues that have been
13 raised.

14 THE CHAIRPERSON: With the exception of those that BCT is
15 seeking approval for, and those would be dealt with with
16 Panel 6.

17 MR. SANDERSON: Absolutely, yes, that's a helpful
18 correction. When I say deferral accounts I mean B.C.
19 Hydro deferral accounts, not the BCTC applied-for
20 deferral accounts; quite right.

21 Panel 3, I think I've already described the
22 main issues there, but two I'll draw attention to
23 because they were talked about at either length
24 yesterday or it may not be obvious where they've landed.
25 One is executive compensation policies that was raised.
26 The overall human resources policies, including at the

1 executive level, will be spoken to at Panel 3. And also
2 the question of the Line Contractors Association in
3 relationship with them, that also is a Panel 3 issue.
4 Panel 3 will have the head of B.C. Hydro's Field
5 Services Organization as part of that panel and so he
6 will be the appropriate person to deal with that
7 particular issue.

8 **Proceeding Time 11:03 a.m. T05**

9 Moving a little quicker, Panel 4, I think the
10 general headings were all fairly fully developed in the
11 staff request, and the very specific additions that have
12 occurred are again in bold as you go through page 6. I
13 don't think they bear any specialized comment.

14 And again, you'll see on page 7, Burrard
15 showing up again, and that's the long-term role, and it
16 is financial analysis in the context of other projects
17 showing up in 4.7.

18 And this is maybe the appropriate place to
19 deal with the first of Mr. Fulton's points this morning,
20 and that is, whether there's an issue between us on the
21 use of the IEP and the REAP. And I don't, listening to
22 Mr. Fulton, think there's any issue at all. I think
23 that we entirely anticipate and expect that people will
24 want to assess the reasonableness of the resource
25 expenditures and acquisitions during the REAP period.
26 And to the extent that that requires them to ask why

1 some alternative course of action wasn't pursued, we
2 accept that that, also, is a necessary part of that
3 enquiry. All I've been at pains to point out is that
4 the IEP goes for a very much longer time indeed than
5 that, and gets into analyses of specific projects, which
6 are not part of the REAP and will have no effect on the
7 revenue requirement or the REAP periods. And to the
8 extent people want to enquire into those, I will be on
9 my feet saying that that's outside the scope of the
10 proceeding. As I understood Mr. Fulton, there shouldn't
11 be any need for me to get up when he's dealing with the
12 issues as he's characterized them. I think we're on the
13 same page.

14 THE CHAIRPERSON: Mr. Austin yesterday made a number of
15 comments with respect to financial screening of projects
16 and the financial tests for selection of projects. Do
17 you see that as an issue for this proceeding? Because
18 of the implications it may have for those projects that
19 are within the scope of REAP?

20 MR. SANDERSON: Again, I think as very carefully expressed
21 by you, I do. But it is the "because" that's key. That
22 is, if there's a linkage between an evaluation
23 methodology or an approach that's been taken by Hydro,
24 to what is actually getting spent in the relevant
25 period, then in my submission it's relevant. But if
26 there isn't, and if people choose to disagree with

1 Hydro's vision of the future, and its relative
2 evaluation of projects which aren't affecting the costs
3 as we have them in this hearing, then I'll be submitting
4 it's not within the scope of the proceeding.

5 THE CHAIRPERSON: Thank you.

6 MR. SANDERSON: Panel 5 distribution I don't think raises
7 anything terribly significant until right near the end,
8 the system extension test on 5.9.

9 Now, we have there listed two issues in 5.9
10 which were added by Terasen and IPPBC, and we accept the
11 relevance of the two issues that are identified at 5.9.
12 There was, I think, to be fair, a broader issue raised
13 with respect to the system extension test and that
14 appears on page 15 of the list, which is an issue that
15 we say is outside the scope of the hearing. And I
16 appreciate that you don't want to hear argument on these
17 issues now and I respect that, but I thought in fairness
18 we had to mention the issue, because parties had, but we
19 need to make it clear that our position is that it's
20 outside the scope, and so it appears at the first bullet
21 under heading C.

22 **Proceeding Time 11:07 a.m. T6**

23 And the distinction in our minds is between
24 the application of a tariff and a rate design which is
25 in place and existing, and whether or not the revenue
26 requirement forecasts properly account for revenue,

1 given the proper application of what's there, and an
2 argument that what's there isn't right and that the
3 system extension test should somehow be different than
4 it is. And this is not the forum, in our respectful
5 submission, for that debate.

6 With respect to Panel 6, transmission, I
7 don't think that there are any significant new issues.
8 There's a couple of bullets in bold which are probably
9 items of detail which were added by various parties to
10 the fairly complete staff list. I guess that is a good
11 point though for me to just respond to Mr. Fulton on the
12 BCTC planning issue. I mean maybe I could do it at the
13 end.

14 Again I didn't hear in what Mr. Fulton said,
15 anything which provoked me to disagree in a significant
16 way. That is, to the extent that the estimates for
17 fiscal '05 and fiscal '06 assume transmission capital
18 expenditures and the cost implications of those, clearly
19 identification of what those expenditures are and their
20 appropriateness is relevant to this proceeding. And I
21 think that's all Mr. Fulton was saying he wanted to be
22 clear that he wished to explore, and again I think if
23 that is the issue, he won't find objection on that from
24 us.

25 What we were saying in terms of what's
26 outside scope is the long-term issues around

1 transmission planning and expansion that BCTC itself
2 will be facing and, we assume, dealing with in the
3 various processes that it's called upon to initiate over
4 the next few years. We didn't want this hearing to turn
5 into a foreshadowing of that.

6 THE CHAIRPERSON: Your comment surprises me to this degree,
7 Mr. Sanderson, as it relates to '06 BCTC revenue
8 requirements. I'll refer to them as that. Mr. Fulton,
9 I think, is saying is that because of the deferral
10 account that's being proposed to capture the difference
11 between the amount that's in the application and the
12 amount that we might prove as a result of a BCTC revenue
13 requirement application for that year, I think Mr.
14 Fulton is saying because of the potential for that
15 deferral account not being approved, that in this
16 proceeding there should be an opportunity for an
17 examination of those '06 BCTC costs. And I would have
18 thought that Mr. Feldberg may not be prepared for that.

19 MR. SANDERSON: I would anticipate Mr. Feldberg, if that's
20 what Mr. Fulton meant, also would have submissions to
21 make, and maybe that's the difference. I didn't hear
22 Mr. Fulton quite the same way that you're now suggesting
23 I ought to have.

24 The BCTC revenue requirement, that is, the
25 cost of running BCTC, I absolutely believe is not a
26 proper part of this proceeding, and that will be stuff

1 of the application that BCTC will bring. I had
2 understood Mr. Fulton to be restricting himself to the
3 anticipated capital expenditures effectively in '05 and
4 '06, and clearly the application has a body of
5 expenditures which lie behind the transmission component
6 of the total revenue requirement that's being sought.
7 And those, I don't think we're saying are outside of
8 scope. That is, to the extent we're saying we need
9 money in order to cover the carrying costs of additional
10 investment in '06, it seems to me we've got to
11 demonstrate that those expenditures are appropriate.
12 And all I heard Mr. Fulton say, I thought, was that's
13 what he wants to look at. But maybe I should ask him to
14 clarify that.

15 **Proceeding Time 11:12 a.m. T07**

16 MR. FULTON: Thank you. In terms of our position, Mr.
17 Chairman, we know that BCTC must be allowed a deferral
18 account to cover these expenses. B.C. Hydro is
19 requesting the Commission to approve a deferral account,
20 and so we need to be able to test whether or not B.C.
21 Hydro should -- a deferral account should be allowed to
22 B.C. Hydro to cover those costs, or whether B.C. Hydro
23 should be absorbing those costs itself.

24 THE CHAIRPERSON: Right. You began your comments by saying
25 that BCTC is required -- that we're required, pursuant
26 to the special direction, to approve a deferral account

1 for BCTC. But I think the deferral account that we're
2 speaking to now is not the subject of a special
3 direction.

4 MR. FULTON: That's right.

5 THE CHAIRPERSON: And in that case, I also understand from
6 the evidence that the deferral account that we're
7 speaking to now is for the full revenue requirement of
8 BCTC for '06, so it would include OMA and capital. And
9 your comments earlier were in the context of testing
10 those numbers in the application for '06 as they relate
11 to expansion plans particularly. And if that -- if
12 you're looking for that opportunity, maybe that's the
13 clarity that we need at this stage for either Mr.
14 Sanderson or Mr. Feldberg to speak to.

15 Am I correct, Mr. Fulton, in what your
16 position is?

17 MR. FULTON: Yes. Yes.

18 THE CHAIRPERSON: Okay.

19 MR. SANDERSON: We probably do need, then, both submissions
20 from both Mr. Feldberg and I. For my part, the B.C.
21 Hydro/BCTC transition deferral account is designed to
22 capture the difference between the costs that we
23 currently forecast for fiscal '06 that arise from
24 recovery of BCTC's revenue requirement, and the costs
25 that will be forecastable once BCTC's revenue
26 requirement has been determined by the Commission after

1 its first revenue requirement hearing.

2 So that when we go into '06, I expect, we
3 will know what the allowable recovery for BCTC is. But
4 when I say BCTC, I mean its revenue requirement and I
5 want to come back to that in a moment. For that
6 difference, that is the difference between what we think
7 today that's going to be implicitly from our application
8 and what it actually turns out to be, we've sought a
9 transition deferral account. Because we think that's
10 entirely within the Commission's control to cause to
11 occur, and so is something that ought to be properly
12 deferred. But I accept Mr. Fulton's comment, and the
13 Chair's, that that's for argument.

14 We're not entitled to that by virtue of any
15 special direction, that's quite so, and we'll have to
16 persuade you that that's a reasonable thing to do. But
17 the thing we're going to ask you to do is allow us to
18 adjust the '06 rates to reflect any cost implication of
19 your decision with respect to the appropriate rates
20 arising from BCTC's revenue requirement.

21 I distinguish BCTC's revenue requirement from
22 the whole -- what is now WTS and will become OAT revenue
23 requirements. There's a difference. BCTC's revenue
24 requirement is just the cost of running the new
25 organization. There will still be B.C. Hydro's owner's
26 revenue requirement underneath it. And that owner's

1 revenue requirement, we're forecasting for two years,
2 and we're not seeking any deferral account in respect
3 of. I mean, that's part of the two-year test period.
4 That is what we're forecasting today, we wouldn't
5 anticipate that anything you do in the BCTC hearing
6 would affect the B.C. Hydro's owner's revenue
7 requirement. And we're not seeking any part of that to
8 be in the BCTC proceeding. And that's why I said that
9 any financial implication of what gets invested in
10 capital, in '05 and '06, I think is properly in this
11 proceeding.

12 THE CHAIRPERSON: Thank you. And just to complete that
13 picture, there's the three components, if you will, to
14 the TRR and the one you haven't mentioned is the asset
15 management fee amount. Is that intended to be part of
16 the B.C. Hydro/BCTC deferral account, transition
17 deferral account?

18 MR. SANDERSON: That's a very good question, Mr. Chair, and
19 on Tuesday morning, when I open our case, I hope to
20 answer it. That is a complex question and I don't think
21 I'm going to try and answer it this morning, if I may.

22 **Proceeding Time 11:17 a.m. T08**

23 THE CHAIRPERSON: Okay.

24 MR. SANDERSON: I mean that one -- because it seems to me
25 that doesn't need to be answered, with great respect, in
26 the context of the issues list at this point. We accept

1 that any costs which won't be influenced by the decision
2 on the BCTC application, ought not to be in the deferral
3 account, they ought to be part of the '05-'06 forecast
4 which we're making here and the revenue requirement
5 approved for it. It is the things which are in the BCTC
6 revenue requirement hearing that properly belong in the
7 transition deferral account as we're applying for it.
8 And you've asked a very precise question about, okay,
9 what's in and what's out? I don't think that's an issue
10 list question but it is obviously an important question,
11 and I'll be in a position to address it on Tuesday.

12 THE CHAIRPERSON: And in part, if both of those components,
13 the B.C. Hydro owners' revenue requirement and the asset
14 management fee component of the TRR, are outside if you
15 will of the transition deferral account, then I think it
16 may answer Mr. Fulton's concerns because I think it
17 follows that matters related to expansion plans will be
18 in one of those two components if in fact those two
19 components are outside of the transition deferral
20 account.

21 MR. SANDERSON: For '05 and '06.

22 THE CHAIRPERSON: For '05 and '06. And so for '05 and '06,
23 they are within the scope of this proceeding and I think
24 it's answered Mr. Fulton's concerns, perhaps.

25 MR. SANDERSON: Subject to what my friend Mr. Feldberg
26 might have to now say.

1 MR. FELDBERG: I think from what I heard from Mr. Sanderson
2 that I agree with his characterization of the issue, and
3 I think with respect to the asset management maintenance
4 revenue requirement that the answer is probably given
5 better on Tuesday than it is today.

6 With respect to your observations about the
7 expansions of the system, Mr. Chairman, those are
8 probably -- the answer to the asset management question
9 probably doesn't bear on those because the expansion
10 projects are either in the BCTC portion of the revenue
11 requirement, or they're capital projects that BCTC is
12 embarking on on its own behalf, or they will be in the
13 owner's revenue requirement where they are transmission
14 projects that BCTC plans for the hydro system. So the
15 answer that we're struggling over doesn't determine that
16 issue in particular.

17 THE CHAIRPERSON: In the short term.

18 MR. FELDBERG: In the short term.

19 THE CHAIRPERSON: Thank you.

20 MR. FULTON: May I just make a request relative to the
21 deferral accounts, and it arises out of the exchange
22 that you had with Mr. Sanderson, Mr. Chairman, and that
23 is that I think it would be very helpful for us all on
24 Tuesday if it was possible, to have a summary from B.C.
25 Hydro letting people know what's in the deferral
26 accounts and what's outside of the deferral accounts, so

1 respect to those, that may very well be welcome but I'm
2 hoping that it's in a similar format to what's already
3 been provided.

4 MR. SANDERSON: Absolutely, Mr. Chair. The reason that I
5 jumped at Mr. Fulton's suggestion was, it was apparent
6 yesterday that a number of people had perfectly genuine
7 questions around, "Just what is it you're proposing?"
8 And I came out of yesterday with the notion that, yes,
9 it's all there, and I accept that this BCTC issue is
10 probably not there, but everything else, I think, is
11 there. I think none of it's new, it's all in the
12 evidence but people are having trouble getting around
13 it, and I'm sympathetic to that, because as you just
14 listed, it appears in a bunch of different places. So
15 when I heard Mr. Fulton say, I think, is "Can you put it
16 on a page for me, so I can see what's in or what's out".
17 And I wouldn't propose to change anything, just put it
18 in one place where everybody can work with it.

19 THE CHAIRPERSON: Thank you. I think you can't do that on
20 one page. And this is an important issue from my
21 perspective, because clarity with respect to how those
22 deferral accounts work is going to be essential when the
23 Commission is asked at the end of each of the test
24 periods to determine whether or not the amounts you're
25 proposing to include are the appropriate amounts. And
26 so I am looking for absolute clarity on these issues,

1 and I think given the exchange that you've just had with
2 Mr. Fulton, that you should in fact do what you've
3 suggested you're going to do. I hope, though, that it
4 is comprehensive, and that that clarity is in fact
5 there, so I wouldn't restrict yourself to one page.

6 MR. SANDERSON: Mr. Chair, if that deals with the issues
7 raised by Mr. Fulton, particularly with respect to BCTC,
8 then all that's left to me to do is move through Panel 7
9 and then explain what we've done with the intervenors'
10 headings.

11 Panel 7 is the Heritage contract and
12 operation of the Heritage assets. There's not a lot
13 there that I think bears special comment, other than the
14 elaboration of the issues that arise out of
15 capitalization and depreciation of aboriginal relations
16 and water-use planning costs would be pursued there.
17 Again, the accounting treatment would have been pursued
18 in Panel 2, but what are those costs, and why those
19 costs would be Panel 7.

20 Similarly, some of the water use planning
21 issues raised by Columbia Power would be dealt with
22 there. And you also see the flip side of the Burrard
23 Thermal issue, the short-term plans are reflected in 7.5
24 and the various issues that were raised with respect to
25 how a generation project is analyzed financially, again,
26 the facts behind that would show up on this panel.

Proceeding Time 11:27 a.m. T10

1
2 That, then, leaves me with the Intervenors
3 heading, and this one was the most difficult in many
4 ways because Commission staff had identified issues, as
5 had B.C. Hydro, with respect to the intervenors. Many
6 of those issues are repetitive of issues that have
7 already been dealt with and are sort of on the issue
8 list, and I wasn't sure whether it made a lot of sense
9 to add them now because this is where the issue in some
10 places got created. So what you see here is a bit of a
11 hybrid.

12 The general language in normal print is that
13 of Commission staff, and if I can characterize it
14 generally it's pretty broad and captures the general
15 issue that's raised in their evidence. If there is a
16 very specific issue that we think maybe wasn't obvious
17 or caught by there that was raised in B.C. Hydro's list,
18 then we've added it in. If it's subsumed in the
19 general, then we haven't, to keep this document more
20 manageable and non-repetitive. And so the bold are
21 almost all B.C. Hydro additions and they're just a small
22 subset of what we'd put in the document that I
23 circulated yesterday. And I'm not sure really that any
24 bear special comment through pages 13 and 14.

25 And that just leaves then Part C on page 15,
26 which as I've --

1 THE CHAIRPERSON: Just before you go there.

2 MR. SANDERSON: Yes.

3 THE CHAIRPERSON: For the purposes of determining what's in
4 scope and what's out of scope as we move through the
5 hearing, the statement of an issue in specific terms
6 rather than in general terms, I thought was going to be
7 more useful. And I think what you've told me is that in
8 some cases, because the staff chose to state the issue
9 in more general terms, you've made some assumptions with
10 respect to whether or not issues you've identified in
11 your document were subsumed in the general. And where
12 they were subsumed in the general, you chose not to
13 include them.

14 This is probably difficult for you to do, but
15 I -- because what the panel may come up with may in fact
16 lend itself better to the specific rather than the
17 general, it would be useful for me if you were able to
18 do this to provide a list of those issues -- I think
19 it's in Part 2 of your submission --

20 MR. SANDERSON: Yes.

21 THE CHAIRPERSON: -- that were not included in Part B of
22 this document that we're speaking to now.

23 MR. SANDERSON: Well, the version at 9 o'clock this morning
24 looked precisely like that, so it probably won't be too
25 difficult to reproduce it.

26 THE CHAIRPERSON: Okay.

1 MR. SANDERSON: We were debating what the most efficient
2 way to do this was, and guessed that this might serve
3 the Commission best. But we can go back to the other
4 version without much difficulty, I suspect. So, sure,
5 we can -- in fact, I mean, for the benefit of other
6 parties, what's missing from here is simply the items
7 that were on the list yesterday that I haven't chosen to
8 reproduce here. So what I can undertake to do is file
9 with the Commission this document again by the end of
10 the day which simply has those reinserted to the extent
11 of being deleted, if that helps.

12 THE CHAIRPERSON: It would be helpful. Thank you.

13 MR. SANDERSON: The only issue I think left to speak about
14 is the capital structure issue. I think we've talked
15 about the rate design issue and the position we take
16 that the appropriateness of the system extension test is
17 not for this hearing, and the way that it calculates
18 contributions in aid.

19 The other issue that was addressed at some
20 length by various parties yesterday and in an exchange
21 with the Commission, is the efficient capital structure.
22 And we do take the position that that's not an issue for
23 this proceeding. As the Chair pointed out yesterday,
24 there is a complete paucity of evidence on that issue,
25 and that's not by accident. That's because, at least in
26 B.C. Hydro's view, that's not something which this

1 proceeding can usefully address. That does appear to be
2 an issue. I don't know whether it gets dealt with
3 finally in argument, but I certainly don't want to be
4 taken as accepting that we think that an efficient
5 capital structure for Hydro is something that we can
6 deal with here, because we don't.

7 I think those are all my comments.

8 **Proceeding Time 11:32 a.m. T11**

9 THE CHAIRPERSON: Thank you. I want to raise a procedural
10 issue that arises in part from your comments, Mr.
11 Sanderson. And it follows I think in this context:
12 When the panel releases the hearing issues list on
13 Monday, I'm anticipating that we will give notice to the
14 participants that there were certain issues that we
15 require further input on. And in fact, the debate that
16 we have very effectively avoided over the last couple of
17 days. An example, I think, is the issue involving the
18 efficient capital structure.

19 And my thinking about that is as follows: As
20 you've mentioned, that could be dealt with at the time
21 of argument. But it strikes me that there are certain
22 issues that will make this proceeding more efficient if
23 there's a ruling from the panel earlier than that,
24 because otherwise we will pursue issues during the
25 course of the hearing that may simply be outside of the
26 scope of the proceeding. And the risk that the panel

1 runs in making that ruling early in the proceeding is
2 that we will do it without the benefit of the evidence
3 and argument, and so I think we would only do that very
4 cautiously, but there may very well be a number of
5 issues that the panel feels that for the purposes of the
6 effectiveness of the hearing, that it's better to make
7 the decision with respect to that earlier rather than
8 later. And the capital structure, I think, is one of
9 those.

10 So I'd like input from those that are here
11 now on just this procedural point, that on Monday the
12 panel may very well identify as part of the circulation
13 of the hearing issues list, a list of issues that we
14 feel we have not yet been able to reach a conclusion on,
15 and we seek further input from the parties on, and I
16 think those are as I say of the nature like the
17 efficient capital structure which may in part turn on an
18 interpretation of the Special Directions. So it's of a
19 legal nature as opposed to, if you will, a factually-
20 driven argument. And for those, if there's a number of
21 them, I think it may be in the interests of the
22 efficiency of this proceeding that we deal with those
23 early. So I'll welcome comments now from anyone who
24 wishes to comment on what I've just said.

25 MR. WAIT: Mr. Chairman, I will be having some questions
26 regarding the capital structure and the way it is

1 be and I think it would be of assistance to Hydro in
2 particular, I am sure, that if there are a number of
3 issues that when the letter goes out a comment is also
4 included on the fact that it's not anticipated that we
5 will start then on the first panel until the afternoon,
6 for example. But I leave that with you, and that would
7 avoid having the panel sit around all morning while
8 legal submissions are made.

9 THE CHAIRPERSON: Yes, I think it's reasonable to assume
10 that we will not begin the first panel until after the
11 morning break. And if I need to move the morning break
12 a little bit earlier because we have finished earlier,
13 then I think that's a reasonable assumption on behalf of
14 -- for Mr. Sanderson to assume that his first panel will
15 not be called until 10:30. So thank you.

16 MR. SANDERSON: Mr. Chairman, I think I'm struggling a bit
17 with anticipating what an efficient procedure would be.
18 I guess I'm a little worried that if late on Monday the
19 Commission effectively states a few legal issues, if
20 that's the implication of the way that their list comes
21 out and it crystallizes in your mind that there are
22 three or four potential issues which may or may not be
23 within the scope, and you pose those effectively as
24 questions to be receiving submissions on, getting those
25 submissions the next morning is probably not the best
26 way to get as clear and coherent statements of people's

1 positions as you might. In other words, if those have
2 crystallized and if you think that they are sufficiently
3 clear that the statements yesterday of various parties
4 that, you know, these things are better debated in the
5 context of the facts as distinct from at large, if there
6 are some big enough issues you can get over that hurdle,
7 then I think we all probably would be better off with a
8 few days to actually organize ourselves around those
9 issues. I mean there are some legal issues here which
10 we've anticipated and would be prepared to argue
11 probably on very short notice. But whether those are
12 precisely the ones that you've formulated, I'm not going
13 to know till Monday night, and I think everybody else is
14 in the same boat.

15 And so what I'm thinking is, maybe the
16 examination of Panel 1 doesn't turn on these things
17 directly, and maybe we could schedule a day certain, say
18 a week Tuesday or something like that, to deal with
19 whatever legal issues there are.

20 THE CHAIRPERSON: Thank you. Is there anyone else who
21 wishes to speak to this?

22 Good. We'll return to it if need be on
23 Tuesday morning. Thank you for your suggestion, Mr.
24 Sanderson. And with that, I think we're adjourned until
25 9 o'clock on Tuesday morning.

26 **(PROCEEDINGS ADJOURNED AT 11:42 A.M.)**