

Request For Information from BC Hydro and BC Transmission Corporation

By

Citizens For Public Power

Note: The following is a list of questions that Citizens for Public Power has compiled based on its review of the application for a revenue increase by BC Hydro and BC Transmission Corporation. Questions have been identified in bold indented type. In some cases a sentence or two has been included as background information to provide context to the question. Such comments have been written in standard text so as not to confuse them with the actual questions.

In drafting our questions, we have attempted to categorize them by general area, such as transmission related questions, IPP related questions and so forth. However, there is, inevitably, some overlap because of the close relationship among many of the areas under consideration.

A) Questions on Transmission Issues and the Role of BC Transmission Corporation

We understand that BCTC has been set up as a company under BC's Company Act. However, it is also referred to in the Applicant's submission as a Crown Corporation.

- 1. Please clarify why BCTC was established under the Company Act.***
- 2. Please indicate any differences between BCTC's legal status and that of a Crown Corporation.***
- 3. Is BCTC subject to the Province's FOI legislation?***
- 4. Please outline the reporting relationship between BCTC and the Province. Does it report directly to the Minister of Energy or to another Cabinet Minister? What regular reports is it required to file with the Province?***
- 5. Who approves the budget of BCTC?***

The Applicants have indicated that one of the major cost drivers for the transmission system is the "increasing complexity of transmission services. When the WTS tariff was introduced, wholesale access was managed as an adjunct to standard utility transmission service. The wholesale transmission business is now more complex and demanding as a result of the significantly higher volume and complexity of trade. Computer systems have required major upgrades to respond to Commission requirements, market demands for wholesale transmission service, and to provide timely billing, settlement and audit services. Professional staff are required to administer tariff operations and respond to customers." (Vol. 1 Chapter 6 p. 4)

Further on the Applicants note that:

“ The third change in the transmission cost structure is the establishment of BCTC. BCTC is built upon BC Hydro’s former Transmission line of business. (Sic) However, as an independent utility, it faces a number of costs that were not part of BC Hydro Transmission’s cost structure within a vertically integrated utility.” (Vol. 1 Chapter 6 p. 4)

6. Please provide a comparison of the transmission costs that would have been incurred if BC Hydro had continued to operate as a vertically integrated utility compared with the costs that have been incurred as a result of the restructuring of the system that has taken place since 1995.

7. Please provide us with a further break down of the additional annual (year by year) costs that have been incurred as a result of the decision to allow third parties greater access to the transmission system since 1995.

8. Please indicate how much of these additional costs have been covered by the new users of the system and how much have been absorbed by BC Hydro.

BCTC will be receiving revenues for transmission services from a variety of transmission users including BC Hydro, other utilities, IPPs, power marketers and other system users.

9. Please indicate the share of transmission system operation costs that each major supplier group (IPPs, power marketers, out of province utilities, etc) is currently paying for use of the transmission grid.

10. Please indicate the share of transmission system operation costs that it anticipates these categories of user groups will be paying over the period from 2005 to 2010.

According to the submission, the Applicants are seeking approval to make significant new investments in transmission capacity in the coming years.

11. Please explain exactly what is meant by the expenditures outlined in table 6-17 and provide further details of each of the categories identified in the table.

According to table 6-17, investments for new transmission capacity for IPPs are anticipated to be \$7 million in fiscal 2004, \$8 million in 2005 and \$24 million in 2006.

12. Please indicate why capital spending to enhance transmission capacity for IPPs is projected to increase so dramatically in 2006.

13. Is this increase in 2006 an anomaly, or are further increases in capital spending on transmission enhancements for IPPs planned for following years? If so, please provide estimates of these projected expenditures.

14. Please indicate how much of the additional cost will be recovered from the IPPs for whom the investment are being made.

15. Please indicate the share of these investments that will be allocated to expanding the system’s capacity to export power as opposed to providing for domestic use.

The Applicants note that transmission system operations have changed in recent years in response to a number of factors. One of these is identified as the “...*functional separation of transmission following FERC Orders 888 and 889*” (Vol. 1 Ch. 6, p. 11) The Applicants make reference to FERC initiated changes in a number of other places in the submission.

16. Please indicate the basis for the assertion that FERC effectively has jurisdiction in BC. Can the Applicants provide us with any legal opinion(s) that substantiate this assertion?

17. Page 9-42 lines 1-8 of the submission outlines services to IPPs connected to BC Hydro’s system. Will MMBU provide these services to IPPs? If so, how will BC Hydro determine appropriate costs?

18. Similarly, how will engineering services and field services for IPPs be costed and who will pay these costs?

In the Applicants’ submission the additional costs of establishing BCTC as a corporation are identified as \$12 million for fiscal 2004 of which \$11.1 million will be spent this year and the remainder carried over to the next fiscal year. (Vol. 1 Ch. 6, p. 41)

Further on, the submission indicates that BCTC’s operations will be “*supplemented by an additional \$15 million to cover the costs associated with an independent business entity, and \$2.8 million for regulatory costs. These additional costs relate to governance, risk management planning and corporate functions*”(Vol. 1, Ch 6, p 44)

19. Please indicate, in more detail, whether these costs are additive and, if so, the reasons for these additional costs.

20. Please indicate why there is a need for an additional \$4 million in “Regulatory, Legal and Advisory services.

The submission labels these and a number of other costs as “Initial Ongoing Operating Costs”

21. Please explain what this term means.

22. Please indicate the source of funding to cover this additional ongoing operating cost.

Under the heading “Market Operations” BCTC notes that: “...*the volume and complexity of this work (i.e. administering the WTS Tariff) has increased markedly since BC Hydro first introduced WTS service in the mid 1990s. To manage this change, BC Hydro implemented the Grid Operations Upgrade Project, to design and build business and system capability for the WTS business. Additional expenses have been incurred to establish the market operations capabilities, transmission scheduling, settlements and billing, WTS tariff development and administration, and to ensure technology sustainment functions.*” (Vol. 1 Chapter 6 p. 13)

23. Please provide an estimate of the additional costs incurred as a result of the “increased volume and complexity of work” since this change was introduced.

Under item 3.1.8 (Initiatives), the submission notes an expenditure of \$3 million for RTO West participation and development.

24. Please details of the nature of this expenditure.

25. Is this an anticipated annual expenditure or a one time cost?

26. If it is the latter, please indicate what the anticipated annual costs of participating in RTO West will be.

27. Please indicate the major legal obligations that BCTC has undertaken with respect to its membership and participation in RTO West.

28. There are a number of issues currently under discussion regarding the final mandate, structure and operation of RTO West.

29. Please indicate any additional legal obligations that BCTC anticipates may be required in the future for it to continue to be a member of RTO West. (i.e. issues currently under discussion or that BCTC assumes may be raised in the near future)

BCTC is requesting a total of \$105 million for its proposed System Control Modernization Project.

30. Please provide the reasons why new control centres are needed now.

31. Please indicate the extent to which these new facilities will be involved in managing distribution operations rather than transmission operations.

32. Would these new facilities have been required if BC Hydro had remained a vertically integrated utility?

Historically, BC Hydro has established security and reliability standards that are among the highest in the industry. We understand that RTO West will be involved in establishing standards for all its member organizations.

33. How does BCTC intend to deal with the possibility that RTO West's standards of reliability and security may be lower than those of BC Hydro?

34. In the event that there are different views of the standards that should be followed, who, ultimately, will have the authority to resolve such differences?

35. As a member of RTO West, will BCTC be able to charge transmission system users the full amounts it determines are needed to maintain system reliability and security in the event that RTO West does not see the need for such high standards?

36. If other members of RTO West fail to deal effectively with reliability and security issues and this results in a black out in the system, will BCTC and BC ratepayers/customers be compensated?

37. If so, how will compensation be calculated and how will it be collected?

The Government's policy of encouraging more IPP generation is likely to result in a significant increase in the number of small scale generators that have access to the transmission system. However, the submission indicates that there are substantial costs to expanding the system to accommodate these new IPPs. As noted above, several tables in the submission identify a number of these costs, such as the capital cost of IPP transmission investments

38. Please provide estimates of total additional costs of new investment in transmission capacity to accommodate bringing new IPPs on to the grid. (i.e both the capital costs of new transmission connections and any other costs that will be incurred to accommodate these new participants in BC's electrical system.

39. What cost recovery mechanisms are in place to ensure that these costs are borne by the beneficiaries of this investment, namely the IPPs and not the ratepayers of BC?

40. What criteria are being used to determine whether, or not, to agree to requests from IPPs for new transmission investments to accommodate proposed new generation facilities?

41. Please indicate the share of new transmission investments that are required to maintain service to customers within BC and the share that will be primarily devoted to increasing export capacity.

42. Please indicate whether there will be cost recovery arrangements to ensure that BC Hydro is not subsidizing the building of additional capacity for the benefit of IPP exports.

43. Please indicate how this issue will be monitored.

B) Power Purchases from IPPs and from Market Sources

Page 1-7 of Vol. 1 of the submission, BCH says: "*The result is that for the test periods, BC Hydro expects to meet all annual load growth through Power Smart or the acquisition of new resources, as opposed to providing supply out of existing unused capability*"

1. Please provide BC Hydro's estimates of the projected costs per GWh of IPP power for each year from now to fiscal 2012/3.

2. Please provide BC Hydro's estimates of the total costs of IPP power purchases for each year over the same period.

3. Please provide any studies, or estimates, that indicate how much it would cost BC Hydro to provide this additional power by expanding its own generation capacity (e.g. by developing its own capacity such as envisioned in Site C proposals or other BC Hydro generation options.)

4. In other words are there any studies that would compare the estimated future costs of IPP purchased power with power that could be generated by BC Hydro if it were permitted to expand its production over the same period?

In the past, BC Hydro's IPP purchases have taken the form of negotiated price contracts with private suppliers. However, we understand that in the future, IPP purchases may eventually be based on market rates. This means that the power purchased by BC Hydro will reflect the price of power in the US market.

5. Please provide any projections that BC Hydro has carried out or acquired from other parties with respect to future electricity prices in the Pacific Northwest electricity market.

6. At what point in time does BC Hydro anticipate that it will have to pay IPPs the Pacific Northwest market prices?

7. What cost control mechanisms will BC Hydro have in place to protect BC customers from escalating market prices?

8. Please provide us with a list of the contracts that BC Hydro has entered into with IPPs since 1985, including the term, price and amount of power purchased (either annually or for the life of the contract.).

9. We understand that a number of IPP contracts allow IPPs to sell surplus power to BC Hydro.

10. Please indicate the arrangements for the price that BC Hydro will be required to pay IPPs for this power.

C) Power Smart Program Expenditures

The documents provided to us indicate that BC Hydro plans to spend \$690.6 million over a 10 year period on Power Smart initiatives beginning in fiscal 2002/03. (*Vol. 2, Appendix 1 Power Smart 10 Year Plan, p. 4*)

1. Please provide us with an estimate of the number of jobs(full year FTE equivalents) that will be created each year during this period.

2. Please provide us with a job creation break down between the three main categories of expenditure (industrial, government & commercial and residential)

3. Please provide us with the cost per job of investments in the three sectors.

4. Please provide us with the regional distribution of jobs created annually during this period.

BC Hydro has indicated that one of the three key tests for screening Power Smart program investments is the Total Resource Cost Test (TRCT) BC Hydro has also noted that in developing the Total Resource Cost Test, "...Social costing was considered, but because of issues surrounding the valuing of externalities, such as environmental impacts, the Total Resource Cost Test is now used."

5. Please provide additional information on the rationale for excluding social costing as a factor in determining the screening of Power Smart investments?

One of the problems in providing investment subsidies is determining whether the recipient would have made the investment in the absence of the subsidy. This problem is acknowledged in the discussion of Free Riders (*Vol. 2, Appendix 1 Power Smart 10 Year Plan, p.9*).

6. What are the criteria used by BC Hydro to ensure that in screening for Power Smart investments, its contribution is really necessary to trigger the conservation initiative?

7. Please explain how BC Hydro audits its Power Smart projects

8. Please provide examples of audits of proposed Power Smart investments that resulted in a rejection of the applicant's proposal.

9. Given that BC Hydro is partnering with individual customers in jointly funding a number of Power Smart initiatives, what mechanisms or criteria are in place to ensure that the amount of its contribution is not more than the minimum needed to trigger the investment?

The BC Hydro Power Smart program is now focused primarily on 'hard wired' investments in power savings. However, it appears that the only approach being followed is direct subsidies to customers for investments to reduce power consumption.

10. Has BC Hydro examined other alternative funding mechanisms such as no interest loans to major industrial and commercial users, rather than outright subsidies? If so, please provide us with the relevant studies.

11. Has BC Hydro examined the feasibility of recovering part of its Power Smart investments by requiring that it receive a share of the financial benefit resulting from energy savings that flow from Power Smart investments?

Table 4.5 (Vol. 2) indicates that within the Government and Commercial Sector, Power Smart will spend slightly over 20% of the total for the sector on Schools, Universities, Colleges and Hospitals (SUCH). However, over 98% of this money will be spent in the first five years and less than 2% in the remaining five years.

12. Please provide us with any studies that BC Hydro has carried out or commissioned by outside consultants that examine the potential savings that could be generated in BC's broader public sector as a result of Power Smart investments.

13. Please indicate why BC Hydro's 10 year Power Smart plan calls for a dramatic reduction in investment in public facilities in its last 5 years?

In the early years of the 10 year plan, a significant part of the total Power Smart energy reduction program is to come from load displacement in the industrial sector (\$102.8 million, approximately half of which is planned to occur in fiscal 2003/4 and 2004/5 of the 10 year plan).

14. Please provide additional details outlining how these estimates have been arrived at.

15. Please explain how reductions flowing from Power Smart investments are identified and calculated where customers are also reducing their power consumption due to other factors such

as a downturn in their markets, closure of parts of their operations or the introduction of new technology that uses less power.

16. Please provide us with a list of all Power Smart investments valued at over \$1 million and the customer name, location and nature of the investment from its inception to the year 2000.

17. Please provide us with a list of all Power Smart investments valued at over \$1 million and the customer name, location and nature of the investment from 2001 to the present.

D) BCTC Application for Utilization and Credit Risk Deferral Account

One of the new accounts for which BCTC has requested approval from the BCUC is a Utilization and Credit Risk Deferral Account.

1. Please provide us with the rationale for merging credit related issues with other types of risks such as weather disruptions in a single account?

2. Will BCTC be able to provide a separate accounting of the amount of money needed for utilization risks and the amount needed to cover credit risks of third parties?

3. Does BCTC intend to make third parties pay the full cost of ensuring third party credit risks or will these costs be borne largely by BC Hydro through payments for its use of the transmission system?

4. If BC Hydro is expected to pay to ensure against credit risks please provide the rationale for this decision.

E) Pension Plan Changes and Related Costs

The *Transmission Corporations Act* directs BCTC to establish a new pension plan for employees being transferred to it from BC Hydro.

1. Please provide the rationale for the creation of a separate pension plan.

2. Please provide the estimated additional cost of the legal and administrative work associated with establishing the new pension plan?

3. Please provide an estimate of the additional ongoing costs (i.e. yearly costs) associated with administering separate pension plans for employees of BC Hydro and BCTC compared with the cost of the BC Hydro plan if it were to have continued in its present form?.

4. Please indicate who will pay for the additional costs of creating this new pension plan. (i.e. Will these costs be borne by the current pension plan of BC Hydro, the new BCTC pension plan or a combination of the two. Or will it be covered by funds from BCTC, BC Hydro or the Province?)

In the application, BC Hydro indicates that it is incurring additional pension costs associated with treating executive bonuses as pensionable earnings. The costs to the pension plan are quite significant.

5. Please provide the rationale for this policy change.

6. Please provide details of the ongoing ongoing costs to the two pension plans of providing this additional benefit to executives?

7. Please indicate whether the increase in pension costs cited on page 1-8 line 19 refers to an increase in pensions or an increase in benefits separate from pensions.

G. Transmission Tariffs and RTO Membership

Starting on April 1st, 2005, BCTC will be responsible for setting transmission tariffs, subject to the approval of the BCUC. However, BCTC will also be a member of the RTO West transmission system. We understand that RTO West may be given a substantial role in determining transmission charges throughout the Pacific Northwest for all of its member organizations, including BCTC.

1. Please describe the obligations that are currently being considered with respect to the future role of the RTO West in regulating transmission pricing within its geographical area.

2. Please outline the implications that this may have for transmission pricing in BC.

3. Please indicate if these discussions in RTO West are also examining issues of rate structure.

4. Please indicate how BCTC intends to reconcile its membership obligations to RTO West with its own assessment of the appropriate tariff amounts and tariff structure, should these differ.

Under section 3(c) of Special Directive No. 9, BCTC is allowed to earn a rate of return on equity similar to that of BC Hydro. Under the agreement with BC Hydro, it is supposed to receive payments from customers that will cover not only its own revenue requirements, but those of the Province as owner as well as funds to cover Asset Management revenue needs.

5. How does BCTC intend to ensure that any future agreements with RTO West do not restrict its ability to meet these objectives?

6. We understand that one of the objectives of RTO West is to establish a market for access to transmission services throughout the region. If this occurs, please indicate the steps that BCTC will take to deal with price and congestion issues.

7. If RTO West does establish a market for access to transmission services, how will BCTC protect BC's system from problems that could arise from an undetermined number of new (and perhaps unknown) entities engaging in buying and selling transmission rights?

8. If RTO West does establish a market for access to transmission services, what guarantees do we have that this market would not compromise the security and reliability of BC Hydro's system?

H) Accenture Contract

- 1. Please provide a BC Hydro baseline cost for all the services that have been transferred to Accenture for the three years immediately preceding the transfer.***
- 2. Please provide copies of cost estimates, consultant reports and all other assessments, whether generated internally by its staff or externally by consultants that provide cost comparisons between BC Hydro in house services and the same services that have been contracted out to Accenture.***
- 3. Please provide us with any reports, studies or audits that evaluate the performance and cost effectiveness of the Accenture contract since BC Hydro entered into it.***
- 4. In evaluating the performance of Accenture, what time frame is being used? Is BC Hydro monitoring performance on a monthly, annual, biennial or other basis?***
- 5. Please indicate whether the service level agreements with Accenture increase, decrease or maintain existing service levels.***
- 6. Please indicate why there is a reduction in staff for 2006 vs 2005 in the commercial and industrial sector if BC Hydro is committed to Power Smart and DSM. (p. 8-6 table 8-1)***
- 7. Please indicate why there is a reduction in the number of key account staff between 2003 and 2006 (p. 8-7, table 8-2)***
- 8. Please provide the rationale for not making the service level targets public. (p. 8-11, lines 19, 20)***
- 9. Why have customer call centre costs increased by 16.6% between 2002 and 2003?(p. 8-16, table 8-6)***
- 10. Will customers receive financial compensation if Accenture fails to meet critical service levels? (i.e. will there be a pass through of Accenture financial penalties? (p. 8-17 line 5/6)***
- 11. The submission indicates that key account manager satisfaction indicies have declined. Is there a commitment, minimally, to recover standards to the March, 2003 levels? (Page 8-17, table 8-8)***
- 12. Please explain why there is such a large increase in customer care OMA expenses in table 8-10 page 8-20***
- 13. Please explain why in table 8-11, page 8-20, trouble cente costs do not appear.***
- 14. Please indicate if BC Hydro has made provision for an ‘exit strategy’ to protect the interests of taxpayers if Accenture does not meet its contractual obligations.***

The submission indicates that BC Hydro will benefit from the growth of Accenture’s business with third parties. However, it does not explain how this will happen.

- 15. Please indicate the nature of the agreement that is supposed to provide benefits to BC Hydro.***

16. Please indicate the criteria that will be used to determine how much BC Hydro receives from such third party transactions and the mechanisms through which BC Hydro will monitor this process

17. The submission indicates that jobs will remain in BC. ((P. 9-57) Please indicate what guarantees have been built into the contract to ensure that this actually happens.

18. Please indicate if there is a base line number of jobs that are to remain in the province and the commitments to provincial jobs in the 10 years of the contract.

19. Please explain why Accenture's fully loaded costs for Powerex and BCTC increase in F2005.

I) Other General Questions

1. Please define the Vancouver Island CFT as per table 8-14 page 8-27

2. Please explain why BC Hydro should fund this if BC Hydro does not remain the power producer for Vancouver Island

3. Heritage Special Direction No. HC2 (HSD#2) requires BC Hydro to deliver energy at cost based rates. Please provide the various components that are included in the calculation of the cost based rates?

4. The Government has established a \$200 million cap on Trade Income? Please explain the rationale behind this rate cap and how it is supposed to function.

5. BC Hydro would be required to do if its Trade Income were higher. What Would BCH do if it incurred a loss on its Trade Income account?

BC Hydro has indicated that its billing arrangement with Terasen Gas is being terminated and that this will result in an additional cost to the utility of approximately \$4 million a year for customer billings.

6. Can BC Hydro explain why this arrangement was terminated?

7. Please indicate under what legislation BC Hydro Services Asset Corporation (SAC) was set up.

8. Please explain to whom BC Hydro SAC is accountable.

9. Please indicate the number of employees it has.

10. Please provide additional information on BC Hydro SACs finances, including assets, income and the disposition of any profits it makes. (see p. 9-56)

11. Please indicate what will happen to BC Hydro SAC if the contract with Accenture is not renewed after 10 years.

12. Please explain why the GSX/VIGP costs indicated on page 2-79 for fiscal 03/04/05/06 are included when not all of this work is approved by the BCUC (eg the VIGP project)

13. Why is variable pay so high for M&P (p 3-29)

14. Please provide information on the remuneration of the senior executives at BC Hydro, Powerex, BCTC and other subsidiaries including salaries, incentive bonuses and benefits for the past 5 years.

15. Please indicate the projections of senior executive salaries for the coming 3 years.

16. Please provide information on the severance pay-outs (and allowances and other retirement payments) that have been given to senior executives over the past 5 years

17. Please indicate the total number of executives earning over \$150,000 per year for each of the past 5 years (the \$150,000 figure should include bonuses and other remuneration.)

18. Please indicate the amount paid to board members over the past 5 years