

Fred James

Chief Regulatory Officer

Phone: 604-623-4046

Fax: 604-623-4407

bchydroregulatorygroup@bchydro.com

January 17, 2020

Mr. Patrick Wruck
Commission Secretary and Manager
Regulatory Support
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

RE: Project No. 159887
British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
Review of the Regulatory Oversight of Capital Expenditures and Projects
Compliance with BCUC Order No. G-313-19 Directive 2

BC Hydro writes in compliance with BCUC Order No. G-313-19 Directive 2 to provide an update of the 2018 Capital Filing Guidelines (**2018 Guidelines**) that includes the requested amendments set out in sections 3.1, 3.3, and 3.6 of the Decision. The update to the 2018 Guidelines is provided as Attachment 1 to this letter.

In the following table, BC Hydro provides an overview of the updates and where the changes have been made in the 2018 Guidelines.

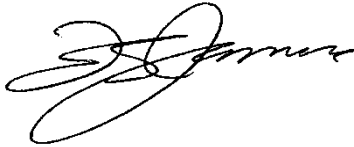
2018 Guidelines	BCUC Decision	Updated Information
Page 3, paragraphs 6(l) to 6(p)	Section 3.3.1, pages 27 and 29	Additional information BC Hydro is amenable to providing in the RRA.
Page 3, paragraph 9	Section 3.3.1, pages 27 and 29	Appendix J materiality threshold for Technology projects.
Page 3, paragraph 10	Section 3.1.3, page 22	Include in RRA, significant changes or identified deficiencies in capital management processes.
Page 5, paragraph 16	Section 3.6.1, page 38	Include statement that the BCUC can direct a CPCN application for any extension project.
Pages 5 to 6, paragraph 20	Section 3.1.3, page 24	Include direction on reporting of financially authorized group, program, or aggregated capital expenditures with extensions in the Annual Report.
Page 5, paragraph 19		Include guidance to indicate if a listed project is part of extension capital expenditures listed in paragraph 20

BC Hydro has also made two minor changes to the 2018 Guidelines:

- In paragraph 6, BC Hydro changed 'specified materiality limit' to 'specified materiality limits' to recognize that with the addition of the new filing requirements, there is more than one applicable materiality limit.
- In paragraph 23, BC Hydro changed 'Project Final Report' to 'Project Completion and Evaluation Report' which is BC Hydro's formal title for the project's final report.

For further information, please contact Geoff Higgins at 604-623-4121 or by email at bchydroregulatorygroup@bchydro.com.

Yours sincerely,



Fred James
Chief Regulatory Officer

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Enclosure (1)

**Review of the Regulatory Oversight of Capital
Expenditures and Project
Compliance with BCUC Order No. G-313-19
Directive 2**

Attachment 1

2018 Capital Filing Guidelines

Purpose of 2018 Capital Filing Guidelines

1. These 2018 Capital Filing Guidelines (**Guidelines**) provide guidance to BC Hydro in preparing and filing applications and compliance reports. They will also help inform the efficient and effective review of BC Hydro's capital expenditures in the course of revenue requirements applications, CPCN or section 44.2 capital expenditure schedule applications, the Annual Report, and project-specific progress and final reports.
2. There may be circumstances in which a different approach from what is set out in these Guidelines is appropriate. These Guidelines do not bind the BCUC in the exercise of its jurisdiction. BC Hydro may propose changes to these Guidelines. BC Hydro will identify and explain in applicable filings any departures from the Guidelines.

Revenue Requirements Applications

Review of Projects in Revenue Requirements Applications

3. For projects with a CPCN, accepted expenditure schedule, or an exemption and that have capital expenditures or additions in the test period, the scope of review in a revenue requirements proceeding may include consideration of the execution of projects. Detailed consideration of BC Hydro's project execution is best reviewed at project completion when total cost and outcomes are known.
4. For projects subject to a future CPCN or section 44.2 application and that have capital expenditures or additions in the test period, the scope of review in a revenue requirements proceeding may include examination of project need and alternatives to the extent reasonably required to test the forecast capital expenditures or additions in the test period. A detailed assessment of need and alternatives should be left to the pending CPCN or section 44.2 application for these projects.

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5. For projects that do not meet the requirements for a CPCN application or have not and will not be the subject of a section 44.2 application, the scope of review in a revenue requirements proceeding may include an examination of project need and alternatives and the reasonableness of the forecast assuming the project proceeds. Any consideration of project execution will normally await project completion.

Revenue Requirements Application Filing Requirements

6. BC Hydro will include in its revenue requirements applications for all individual projects above specified materiality limits:¹
- (a) the project's unique planning identification number;
 - (b) the project's driver;
 - (c) the project's lifecycle stage or phase;
 - (d) key project milestone dates;
 - (e) project forecast capital expenditure and additions;
 - (f) an indication of whether a project will be subject to a CPCN or expenditure schedule application;
 - (g) an indication whether a project is an extension;
 - (h) if applicable, an indication of which strategies, plans, or studies a project is linked to;
 - (i) descriptions of the strategies, plans, or studies identified in (h) above;
 - (j) If applicable, an indication of which projects are part of Programs of Projects;
 - (k) description, objectives, scope, schedule, risk and mitigation strategies, and, if available, cost estimate for the programs identified in (j) above;

¹ Historically, the materiality limits have been determined through dialogue between BC Hydro and the BCUC.

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- (l) information on the category of capital investments (mandatory investment, committed investment and investment to be prioritized) for individual projects;
 - (m) capital investment risk and value scores for individual projects;
 - (n) a qualitative discussion of the public interest matters with regard to the environment, First Nations, and communities/stakeholders for capital projects in the Identification phase or later that meet the materiality limit for the capital project summaries;
 - (o) the actual or forecasted construction start dates for capital projects in the Implementation phase that meet the materiality limit for the capital project summaries; and
 - (p) the final capital cost for capital projects and programs that went into service in the previous test period above a specified materiality limit.
7. BC Hydro will continue to provide relevant information on project justification and alternatives for major projects over a specified materiality limit. In addition, BC Hydro will include information on Implementation Phase risk and risk treatment and impacts and benefits.
 8. Recurring Capital Programs may be reviewed in the appropriate section(s) in a revenue requirements application.
 9. BC Hydro will include all Technology projects over \$10 million in the capital project summaries.
 10. BC Hydro will provide in revenue requirements applications information on:
 - a. any significant changes in its capital management processes, including changes in how capital expenditures are defined and authorized; and
 - b. any significant deficiencies in its capital management processes identified through internal and external audits or reviews.

Applications Pursuant to Sections 46(1) and 44.2 of the Utilities Commission Act (UCA)

Expenditure Thresholds

11. A Major Project is a capital project that has an authorized cost estimate that exceeds one of the following thresholds:
 - a. \$100 million threshold for Power System projects;
 - b. \$50 million threshold for Buildings projects; and
 - c. \$20 million threshold for Information Technology projects.
12. The authorized cost estimate is the requested funding for a project, inclusive of all contingencies and reserves, and based on a fixed scope and in-service date.

Certificate of Public Convenience and Necessity and Section 44.2 Expenditure Schedule Acceptance

13. BC Hydro will file an application for a CPCN pursuant to subsection 46(1) of the UCA for Major Projects that are extensions. An extension is a project initiated with the intent to expand the service area or capacity of a utility plant or system.
14. Extension projects may include: facility end-of-life replacement projects (as opposed to individual component(s) that have reached end-of-life); new projects designed to serve incremental energy and/or peak load growth; and refurbishment projects that are not undertaken to serve incremental load growth, but through efficiencies result in additional MWs and/or GWhs/year on a planning basis.
15. Under section 44.2 of the UCA, a public utility may file an expenditure schedule for acceptance of capital expenditures that it has made or plans to make. Although the BCUC cannot require BC Hydro to file a section 44.2 application for acceptance of a capital expenditure schedule, BC Hydro commits to filing a section 44.2 applications for Major Projects that are not extensions.

16. The BCUC can also direct BC Hydro to file a CPCN application for any extension project.

New Service Area

17. BC Hydro will file for a CPCN pursuant to subsection 46(1) of the UCA with respect to public utility plant or system required to serve a new service area and that is not an extension of BC Hydro's existing system. There will be no expenditure threshold trigger for these filings.

Compliance Reporting

Annual Report

18. *Capital Expenditures*: The financial schedules in section 6 of the Annual Report to the BCUC will provide a comparison between planned and actual capital expenditures at the end of the reporting period. Annual capital expenditures and additions plan to actual cost variance explanations by main asset category will also be provided.
19. *Extensions*: In the Annual Report, BC Hydro will continue to provide a listing of all projects which are considered extensions pursuant to section 45(6) of the UCA.
20. *Extensions*: In the Annual Report, BC Hydro will provide a listing and the forecast capital cost, where available, of all capital expenditures that are above a specified materiality limit and meet the following criteria:
- a. financial approval of the capital expenditure is authorized or expected to be authorized at a group, program or other aggregated level; and
 - b. any subset of capital expenditures within the group, program or other aggregated level is an extension as defined in paragraph 13.

Project-Specific Compliance Reports

21. *Manner & Form:* BC Hydro will continue to make project-specific compliance filings with the BCUC in the manner and form of previous project-specific compliance reports or in a manner or form directed by the BCUC.
22. *Periodic Project Progress Report:* BC Hydro will continue to file semi-annual project progress reports for most capital projects meeting the criteria for CPCN or section 44.2 applications. Semi-annual progress reporting is appropriate given the larger scope and the often extended schedule of capital projects. BC Hydro will advise the BCUC if it believes annual project progress reports are appropriate for a particular project.
23. *Project Completion and Evaluation Report:* BC Hydro will submit the Project Completion and Evaluation Report three months after receiving Board of Director Approval of the Project Completion and Evaluation Report.