

**Fred James**

Chief Regulatory Officer

Phone: 604-623-4046

Fax: 604-623-4407

bchydroregulatorygroup@bchydro.com

November 18, 2019

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. 1599045
British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
Review of BC Hydro's Performance Based Regulation Report**

BC Hydro writes in response to the BCUC's letter of November 14, 2019, which invited BC Hydro and interveners to provide submissions in writing prior to the procedural conference. BC Hydro's written submission is attached.

For further information, please contact Chris Sandve at 604-974-4641 or by email at bchydroregulatorygroup@bchydro.com.

Yours sincerely,

Fred James
Chief Regulatory Officer

cs/rh

Enclosure

**BCUC Review of
Performance Based Regulation Report**

**BC Hydro's Pre-Filed Comments for
November 22, 2019 Procedural Conference**

November 18, 2019

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1 Introduction

2 The British Columbia Utilities Commission (**BCUC**) has convened this proceeding to
3 review BC Hydro's Report on Performance Based Regulation (**PBR Report**) and
4 related materials.¹

5 The BCUC's letter of November 14, 2019 (Exhibit A-3) invited parties to file
6 comments in advance of the November 22, 2019 Procedural Conference. This
7 document sets out our proposal for a fair and efficient process to consider the PBR
8 Report. It also outlines our views on the other matters identified by the BCUC. We
9 will expand on some of these matters, as necessary, at the Procedural Conference.

10 The decision regarding the adoption of PBR for BC Hydro is of fundamental
11 importance to BC Hydro, customers, interveners, the Government of B.C.
12 (BC Hydro's shareholder) and the BCUC.

13 BC Hydro supports the BCUC's decision to hold a separate process that will allow
14 due consideration of the subject matter of the PBR Report.

15 2 BC Hydro's Proposed Process

16 BC Hydro's proposed process contemplates meaningful consultation with
17 stakeholders, followed by an orderly and efficient resolution of important threshold
18 questions. It positions the BCUC to determine, after meaningful input by all parties,
19 whether or not BC Hydro's next revenue requirements application will be:

- 20 • A cost of service regulation (**COSR**) application for a two or three year test
21 period, or

¹ BCUC Order No. G-244-19.

- 1 • A “Fiscal 2022 to Fiscal 20XX PBR Application” consisting of a fiscal 2022 base
2 year (determined on cost of service basis) and a PBR Plan for determining
3 rates in the remaining years of the PBR term.

4 **2.1 The Key Issues Identified by the PBR Report are Best**
5 **Addressed Sequentially**

6 The matters raised in the PBR Report and related materials can be broadly grouped
7 into the following four issues, to be addressed in two phases.

8 *Phase 1 (“threshold issues”)*

- 9 1. What are the objectives of adopting PBR?
10 2. Considering the objectives identified, if PBR is adopted for BC Hydro, what are
11 the key principles that should inform a future PBR application and what are the
12 design issues that should be addressed by BC Hydro, in that application?
13 3. Should PBR be adopted for BC Hydro? If yes, when and how should it be
14 implemented?

15 *Phase 2 (if required)*

- 16 4. If PBR is adopted for BC Hydro, what are the specifics details of BC Hydro's
17 PBR Plan?

18 BC Hydro submits that it is appropriate for the BCUC to first decide the phase 1
19 issues (issues (1), (2) and (3)) as part of this process to review the PBR Report and
20 related materials. The proposed process and timeline discussed in this Submission
21 is designed to resolve these three threshold issues in time to inform BC Hydro's next
22 revenue requirements application. The next revenue requirements application could
23 address issue (4), with BC Hydro filing (a) cost of service evidence for a fiscal 2022
24 base year, plus (b) the PBR Plan that would be used to set rates in the remaining
25 years of a PBR term.

1 We believe this is the correct approach for the following reasons:

- 2 • **Recognizes the importance of the threshold issues:** A phased approach to
3 the issues appropriately recognizes that the adoption of PBR would represent a
4 significant change for all stakeholders, including BC Hydro, interveners and the
5 BCUC. As we explained in our PBR Report:

6 PBR is predicated on providing greater autonomy to the utility.
7 Under PBR, the BCUC's role would be to provide a framework
8 to incent efficient behaviour and then allow BC Hydro to manage
9 its expenditures within that framework without detailed
10 regulatory review that would second guess the decisions made.
11 In exchange for this increased autonomy, BC Hydro would
12 assume both the risk that the PBR formula would not sufficiently
13 fund certain costs as well as the opportunity to retain additional
14 savings, if new efficiencies were discovered, over and above
15 what was required to meet the formula.²

16 The objectives, principles and implications of adopting PBR for BC Hydro
17 warrant careful consideration, before debating specific details of a potential
18 PBR plan. Consultation on these issues should not be rushed.

- 19 • **Provides an opportunity for stakeholder input:** BC Hydro concluded in the
20 PBR Report that cost of service regulation “should be given the opportunity to
21 work” before considering PBR.³ BC Hydro identified both conceptual and
22 practical concerns with moving to PBR at this time, which are summarized on
23 page 11-5 of the PBR Report and explained in more detail starting on
24 page 11-63. To date, however, BC Hydro is the only party that has addressed
25 these matters. Intervenors should be given a full opportunity to express their
26 views on this issue. We are aware from past and ongoing FortisBC proceedings
27 that some intervenors have specific views on the relative merits of COSR and
28 PBR.

² BC Hydro PBR Report, page 11-4 and 11-5. Please also see the discussion on page 11-11, which references academic commentary on this topic.

³ PBR Report, page 11-63.

- 1 • **Promotes regulatory efficiency:** The design of a PBR plan is complex. There
2 are inter-relationships among the various components of a PBR plan, making it
3 desirable to address all of the components together.⁴ While it is possible to
4 embark on a proceeding to determine the design of a PBR plan with the
5 threshold issues unsettled, it will be more efficient to proceed with them
6 sequentially. If consideration of the threshold issues determines that PBR is not
7 appropriate for BC Hydro, the considerable time and expense of a review of the
8 fourth issue will be avoided, or deferred. If consideration of the threshold issues
9 identifies areas of common agreement amongst the parties, the development
10 and review of a specific PBR plan for BC Hydro will be simplified.⁵
- 11 Regulatory efficiency is particularly important at this time given the number of
12 significant BC Hydro regulatory filings moving forward in tandem.⁶
- 13 • **Identifies principles and design issues for consideration in Phase 1:** While
14 it is premature to make decisions on specific elements of the PBR Plan
15 (e.g., determining the X-factor or which costs require Y-factor treatment), the
16 early identification of principles and design issues for consideration would
17 facilitate the development of a PBR Plan, if PBR is adopted for BC Hydro. It
18 would also ensure that issues of interest to the BCUC and participants are
19 addressed by BC Hydro in a PBR application and would help to frame the
20 subsequent proceeding.

⁴ BC Hydro made this point in response to a number of information requests seeking BC Hydro's views on specific elements of a PBR plan. For example, see BC Hydro's response to BCUC IR 1.191.1.

⁵ This is underscored by the experience in the recent FortisBC Multi-Year Rate Plan application, in which some interveners have continued to advocate for COSR throughout the proceeding.

⁶ Significant BC Hydro applications over the next two years include the Residential Service Rate Pricing Principles application, the Integrated Resource Plan, a Cost of Capital application and a potential new Transfer Pricing Agreement.

1 **2.2 Proposed Process - Consultation and Prompt Resolution of**
 2 **the Threshold Questions**

3 BC Hydro's proposed process, and a potential timetable, for addressing the
 4 threshold questions are summarized in the table below. We elaborate on each
 5 process step after the table.

6 The process is modelled on the approach used successfully in the context of
 7 BC Hydro's 2015 Rate Design Application. It will result in a decision on the threshold
 8 issues to inform BC Hydro's next revenue requirements application.

Introduction to PBR Presentation BC Hydro distributes survey to interveners	March 31, 2020
BC Hydro conducts one-on-one consultation meetings with interveners	April 6 to April 10, 2020
Interveners provide BC Hydro with survey responses and any additional comments	April 17, 2020
BC Hydro submits consultation report summarizing intervener feedback and BC Hydro's further comments	May 14, 2020
Interveners submit Intervener Evidence	May 20, 2020
Information Requests on Intervener Evidence	May 29, 2020
Responses to Information Requests on Intervener Evidence	June 12, 2020
Rebuttal Evidence (if any)	June 19, 2020
Streamlined Review Process (SRP)	June 25, 2020
BCUC decision on threshold issues	By end of August 2020

- 9 • **Introduction to PBR presentation:** The presentation would be approximately
 10 one and a half hours and would introduce PBR concepts rather than serve as a
 11 forum for parties to be setting out positions on particular issues. While some
 12 interveners and participants may be familiar with these concepts, this may not
 13 be the case for all interveners. BC Hydro would be open to the Panel attending,
 14 if desired.
- 15 • **Survey and one-on-one consultation:** BC Hydro would develop a survey for
 16 distribution to interveners, canvassing their views on topics pertinent to the
 17 threshold issues. The survey would serve as an outline for one-on-one
 18 consultations with interveners, but would not constrain those discussions.

1 This proposed survey is intended to provide an objective assessment of
2 intervener views with regards to PBR including its applicability to BC Hydro and
3 the objectives and principles that should guide the development of a PBR plan,
4 if PBR is adopted for BC Hydro. Interveners can identify particular issues of
5 interest or concern.

- 6 • **BC Hydro consultation report:** BC Hydro would consolidate the comments
7 and feedback in a report for filing with the BCUC. A draft report would be
8 provided to interveners for their comments to ensure that their views are
9 accurately represented. BC Hydro would also file written survey responses from
10 interveners as an attachment.
- 11 • **Intervener Evidence and Rebuttal Evidence:** BC Hydro's proposed timeline
12 allows for Intervener and Rebuttal Evidence as well as information requests on
13 Intervener Evidence. Through the Fiscal 2020 to Fiscal 2021 Revenue
14 Requirements Application proceeding, BC Hydro has responded to two rounds
15 of information requests from the BCUC and interveners on the PBR Report and
16 related materials.

17 For efficiency, BC Hydro suggests that questions on any Rebuttal Evidence be
18 answered through the SRP. This approach is consistent with the timetable for
19 the Fiscal 2020 to Fiscal 2021 Revenue Requirements Application where
20 BC Hydro will answer questions on any rebuttal evidence as part of the oral
21 hearing.

22 In the event that interveners do not intend to file additional evidence apart from
23 their responses to the survey, we would propose advancing the remaining steps
24 accordingly. The additional time to prepare the next revenue requirements filing
25 would prove to be very helpful, given that BC Hydro's budgeting cycle for
26 fiscal 2022 will already be underway.

- 1 • **Streamlined Review Process (SRP):** The BCUC could convene an SRP to
2 hear presentations from BC Hydro on the consultation report and from
3 interveners on their evidence. Following each presentation, the BCUC and all
4 other parties, could ask questions of the presenters. BC Hydro would make
5 executives and staff available to speak at the SRP. In addition, BC Hydro has
6 retained Dr. Dennis Weisman to provide expertise on PBR and could ask Dr.
7 Weisman to attend the SRP. The SRP format is conducive to the Panel being
8 able to have a productive exchange with all participants on the threshold
9 issues. The threshold issues are narrow and limited in number.

10 **2.3 Future Steps Following a BCUC Decision on Threshold Issues**

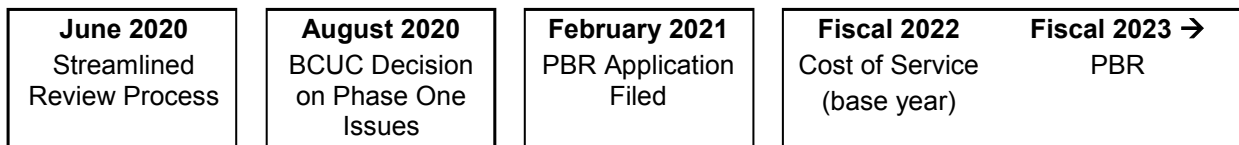
11 The BCUC need not address process beyond the SRP at this time. However, for
12 information purposes only, we can advise that:

- 13 • Developing a revenue requirements application of any type takes many months.
14 By the time an SRP is completed and decision rendered on the threshold
15 issues, BC Hydro's budgeting cycle will have already commenced and work will
16 be well underway for fiscal 2022;
- 17 • If, by the end of August 2020, the BCUC determined that PBR should be
18 adopted for BC Hydro:
- 19 ▶ BC Hydro would conduct further consultation on the specifics of a PBR Plan.
20 BC Hydro would initiate this consultation on its own initiative, so the BCUC
21 would not need to prescribe any formal process; and
 - 22 ▶ BC Hydro would file a "Fiscal 2022 to Fiscal 20XX PBR Application"
23 consisting of a fiscal 2022 base year (determined on cost of service basis)
24 and a PBR Plan for determining rates in the remaining years of the PBR
25 term.

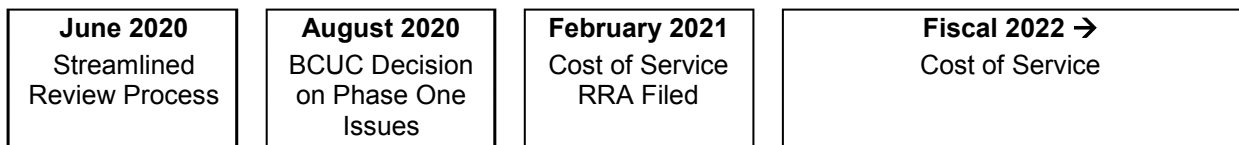
- 1 • If, by the end of August 2020, the BCUC determined that PBR should not be
2 adopted for BC Hydro:
- 3 ▶ BC Hydro would file a revenue requirements application in February 2021
4 with either a two-year cost of service application (for fiscal 2022 and
5 fiscal 2023) or a three-year cost of service application (for fiscal 2022,
6 fiscal 2023 and fiscal 2024); and
- 7 ▶ A BCUC determination following the SRP that BC Hydro's next revenue
8 requirements application should be a cost of service application would allow
9 BC Hydro to prepare its application in the normal course. There would be no
10 need for further process or consultation leading up to the application.

11 A visual summary of the steps described above is provided below.

12 **Timeline 1 – If the BCUC Adopts PBR for BC Hydro**



13 **Timeline 2 – If the BCUC Does Not Adopt PBR for BC Hydro**



14 **3 Other Matters**

15 The BCUC's letter of November 14, 2019 (Exhibit A-3) requested BC Hydro and
16 interveners to address the following items at the procedural conference:

1 **1. Whether any interveners intend to file intervener evidence, and if so, the**
2 **intended use of experts and the subject matter of that evidence.**

3 This matter is for interveners. BC Hydro's proposed process allows for Intervener
4 Evidence and information requests on Intervener Evidence, in a sequential manner,
5 consistent with the BCUC's determination in BCUC Order No. G-146-19.

6 **2. Whether the review of the Application should proceed by way of a**
7 **written or oral public hearing or some other process. Please identify the**
8 **recommended steps and if an oral hearing is proposed, please identify**
9 **the specific matters that should be addressed through that process and**
10 **the rationale.**

11 BC Hydro's proposed process is outlined above. An SRP is appropriate for the more
12 limited threshold issues. If PBR is adopted for BC Hydro, the BCUC can determine
13 the process on the fourth issue after the filing of a PBR application, just as it would in
14 the course of any revenue requirements application.

15 **3. Any significant time constraints and/or periods of unavailability which**
16 **should be taken into consideration when establishing the Regulatory**
17 **Timetable.**

18 BC Hydro's proposed timetable:

- 19 • Starts on March 31, 2020. In BC Hydro's view, it is impractical to begin the next
20 steps in this proceeding any sooner given the significant time commitment
21 required to prepare for and participate in the oral hearing and argument phases
22 of the Fiscal 2020 to Fiscal 2021 Revenue Requirements Application; and
23 • Concludes the evidence phase of the proceeding by the end of June 2020.
24 BC Hydro notes that if the proceeding were to extend beyond this point,
25 Dr. Weisman is unavailable for most of July 2020 due to family commitments.

- 1 **4. Any other procedural matters that parties want to bring to the attention**
2 **of the Panel that will assist in the efficient review of the PBR Report and**
3 **related materials.**

4 BC Hydro has no further matters to address at this time. We will respond at the
5 Procedural Conference to any other matters raised by interveners.

6 **4 Concluding Remarks**

7 We appreciate the opportunity to comment in advance of the Procedural
8 Conference. We believe that our proposed process will result in a fair and efficient
9 review of important threshold questions with regards to the adoption of PBR for
10 BC Hydro. We look forward to working with interveners and the BCUC to explore
11 these threshold matters.