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British Columbia Utilities Commission
Suite 410, 900 Howe Street
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Attention: Marija Tresoglavic, Acting Commission Secretary

Dear Sirs/Mesdames:

**Re: British Columbia Hydro and Power Authority (“BC Hydro”)
F2020 to F2021 Revenue Requirements Application ~ Project No. 1598990**

We enclose for filing BC Hydro’s written Reply Submission with respect to the oral phase in the above-noted proceeding.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Matthew Ghikas
Personal Law Corporation

MTG/tva
Enclosure

BRITISH COLUMBIA UTILITIES COMMISSION
IN THE MATTER OF THE *UTILITIES COMMISSION ACT*,
R.S.B.C. 1996, CHAPTER 473
and
BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
FISCAL 2020 TO FISCAL 2021 REVENUE REQUIREMENTS APPLICATION

Reply to Interveners on Panel Questions

June 22, 2020

FASKEN MARTINEAU DuMOULIN LLP
Matthew Ghikas, Christopher Bystrom and Tariq Ahmed

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A. INTRODUCTION

1. These submissions (“Further Reply”) are limited to responding directly to arguments raised by interveners following the oral argument phase on Friday, June 12, 2020. It is organized according to the BCUC Panel’s questions posed to BC Hydro.¹

B. REPLY ON QUESTION 1 SERIES (DEMAND SIDE MANAGEMENT)

(a) Reply to CEC Regarding Reallocations of DSM Expenditures

2. CEC takes issue with BC Hydro’s oral submission in response to BCUC Panel question 1.1 that “there have been no reallocation of spending that have raised concern.”² CEC directs the BCUC to paragraphs 489 to 525 of its Final Submissions, where CEC states that it “sets out its concerns with respect to the ongoing reallocation of DSM investment away from commercial ratepayers, both between and within test periods.”³

3. BC Hydro is cognizant that CEC has expressed concerns about the decline in DSM expenditures in the commercial sector relative to other sectors and BC Hydro’s underspending compared to plan.⁴ However, the reallocations that are the subject matter of BCUC Panel question 1.1 are distinct from those issues. Question 1.1 and BC Hydro’s response to it address a scenario in which BC Hydro reallocates spending from one program to another program during a test period. These reallocations entail reducing spending in one program, and spending in another program above the planned amount identified in a BCUC-accepted expenditure schedule. CEC’s Final Submissions had not raised concerns about these types of reallocations.

4. While there have been positive and negative variances on individual programs within a sector, BC Hydro’s fiscal 2017 and fiscal 2018 DSM annual reports show that it did not spend

¹ BC Hydro’s silence should not be construed as agreement.

² Tr. 16, p. 2919.

³ CEC Additional Submissions, p. 1.

⁴ CEC Final Submissions, paras. 489 to 525.

above the planned amounts in any of the residential, commercial and industrial sectors.⁵ (BC Hydro's fiscal 2019 DSM annual report is not on the record in this proceeding.)

5. BC Hydro's response to the concerns articulated in CEC's Final Submissions appears in BC Hydro's Reply Submissions, starting at paragraph 293.

C. REPLY ON QUESTION 2 (VALUE OF SURPLUS ENERGY AND POWEREX NET INCOME)

(a) Reply to Mr. Willis Regarding Rate Design and Electrification

6. Mr. Willis' comments return to the themes in his earlier submission regarding rate design and low-carbon electrification. BC Hydro's Reply Submission addresses why the Panel should avoid issuing directions related to rate design. It also outlines BC Hydro's work on electrification opportunities.

7. Mr. Willis states that it "seems unfair" that Powerex is "exporting power at 1/3 the price that their BC customers are paying".⁶ BC Hydro submits that, following the principle of cost causation, it is fair that its customers pay the cost-of-service rates approved by the BCUC. It is also fair, and beneficial, to customers that BC Hydro makes Surplus Sales to Powerex. Surplus Sales to Powerex offset BC Hydro's Cost of Energy and support transactions by Powerex to third-parties to generate a portion of its Trade Income in the competitive market, which in turn reduces BC Hydro's revenue requirements and rates for all customers.

(b) Reply to CEABC Regarding Netting of Revenues

8. CEABC requests clarification of the "netting" of revenues in the context of Energy Studies optimizing BC Hydro's consolidated net revenue from operations.⁷ BC Hydro confirms that the net amount is: revenues from sales from the system (for both Surplus Sales and sales to Powerex), less expenditures for purchases to the system (for both Market Energy Purchases and purchases from Powerex). Operating expenses are not deducted in this calculation.

⁵ Exhibit B-1, Application, Appendix Z, Report on Demand-Side Management Activities for Fiscal 2017, p. 3 (PDF p. 2256) and Report on Demand-Side Management Activities for Fiscal 2018, p. 4 (PDF p. 2272).

⁶ Willis Additional Submissions, p. 1.

⁷ CEABC Submissions, p. 2.

9. However, Powerex's Net Income or Trade Income as used in the calculation of rates is based on the full audited net income as consolidated by BC Hydro, such that it does account for operating expenses as well. This is described in BC Hydro's response to AMPC IR 1.17.1,⁸ which noted that Powerex net income is included in BC Hydro Trade Income to the benefit of BC Hydro ratepayers.

D. REPLY ON QUESTION 3 (INCLUSION OF SUBSTATION PROPERTIES IN RATE BASE)

(a) Reply to BCOAPO Regarding Need for a Regulatory Account

10. BCOAPO again urges the BCUC to create a deferral account for the carrying costs of the properties for the two substation projects, stating that BC Hydro's submissions did not contain any information or law to allay its concerns.⁹ BC Hydro's approach reflects the typical regulatory accounting treatment; BC Hydro routinely incurs operating costs on projects before they can be capitalized. In the absence of a compelling rationale to justify the creation of another regulatory account, it is reasonable to apply BC Hydro's ordinary practices and accounting rules and expense the costs.

(b) Reply to AMPC Regarding Definition of "Rate Base" in Direction No. 8

11. BC Hydro relies on the oral submissions of counsel in response to AMPC's argument¹⁰ interpreting the definition of "rate base" in Direction No. 8 ("the amount listed as property, plant and equipment in service"). BC Hydro's primary point is, in fact, a full answer to the Panel's question. In essence, the word "listed" suggests an intention on the part of the Lieutenant Governor in Council that the BCUC accept BC Hydro's determinations as to what is "property plant and equipment in service".¹¹ This prescriptive approach made sense in light of the very limited relevance that "rate base" serves when the shareholder's return is fixed at \$712 million.

⁸ Exhibit B-6.

⁹ BCOAPO Additional Submissions, p. 2.

¹⁰ AMPC Additional Submissions, p. 1.

¹¹ BC Hydro's response to BCUC IR 2.249.2 (Exhibit B-12) shows that the properties in question are listed in this category.

12. Counsel for BC Hydro articulated why, in the alternative, these properties are “in service”; assets in use and assets that are useful (i.e., meeting the standard “used and useful” test) all support the delivery of regulated service to customers and are thus generally included in rate base. Counsel cited the example of spare conductor coil which was useful in the future, but not in immediate use.

13. AMPC responds by suggesting that, in future test periods, “these properties may be best classed as not in service, or held for future use, and hence subject to a less than full return.” On this point, AMPC footnotes evidence (not the decision) from a Terasen Gas CPCN application where the utility had applied for a CPCN to purchase a property adjacent to its LNG facility. The BCUC’s decision on that application¹² and on the reconsideration application that followed both contradict AMPC’s proposition. The decisions both support BC Hydro’s position that properties acquired for future use should, subject to imprudence, be included in rate base and be subject to a full return on equity.

14. The property targeted by Terasen was not immediately required, but rather was being purchased to prevent future development by others on adjacent lands that might render the LNG facility non-compliant with CSA standards.¹³ Only a portion of the targeted property was needed as a buffer; a small portion south of Tilbury Road was never going to be required for that purpose or otherwise be used.

15. In its initial decision, the BCUC held that all but the small portion south of Tilbury Road would be added to rate base, despite the fact that none of the property served any immediate need. The BCUC recognized its future benefit to ratepayers, i.e., avoiding the need to adopt more

¹² Order G-28-10. Online: https://www.bcuc.com/Documents/Proceedings/2010/DOC_24639_G-28-10_TGI%20Tilbury-Land-Purchase-Decision.pdf.

¹³ “Terasen Gas states that if it does not purchase the Property and the Property is developed such that the Tilbury Facility is no longer in compliance with CSA Z276, then Terasen Gas will be in a difficult situation and would be required to either replace the existing tank, attempt to mitigate the risk reactively after the Property was sold, or even decommission the LNG Facility. ... In its view, the acquisition of the Property is the most cost-effective option available to it.”

costly alternatives in the future due to possible future non-compliance with CSA standards.¹⁴ The BCUC then reconsidered and varied its decision, determining that even the portion south of Tilbury Road (i.e., the portion that would itself never be needed as a buffer) would be included in rate base if Terasen was unsuccessful in subdividing the property.¹⁵ It stated:

Terasen Gas submits that, since the Property was only available for purchase as a single parcel, as of at the acquisition date, the portion of the Property south of Tilbury Road will be used and useful because its acquisition permits the acquisition of the portion of the Property North of Tilbury Road.¹⁶

....

In addition the Commission Panel accepts Terasen Gas' uncontradicted evidence that the only way that Terasen Gas can acquire the land north of Tilbury Road that will be required for compliance with CSA Z276, is to purchase the Property in its entirety and that in consequence the land south of Tilbury Road will be required to provide utility service until it has been subdivided and sold. The Commission Panel finds that this represents an overarching reason to grant the reconsideration sought by Terasen Gas and accordingly finds it unnecessary to address Terasen Gas' Grounds 2 or 3.¹⁷

The entire property attracted Terasen's allowed return on equity, not the partial return suggested by AMPC.

16. AMPC also footnoted a BCUC decision relating to a Corix utility. That decision does not assist AMPC. In that case, Corix was seeking to leave a boiler (the "2.3 MW TEW") in rate base despite having replaced it. The BCUC described the issue as follows:

Corix proposes to replace the existing 2.3 MW temporary energy centre (TEC) with a larger 8 MW TEC in 2016. As part of its proposal, the existing 2.3 MW TEC would remain in rate base until such time as it is able to be re - deployed to another project.

...

¹⁴ Order G-28-10, Decision, p. 14.

¹⁵ Order G-28-10, Decision, p. 4, see Terasen's requested order paragraph 3e, which the BCUC approved (see p.5).

¹⁶ Order G-68-10, p. 6. Online: https://www.bcuc.com/Documents/Proceedings/2010/DOC_25155_G-68-10_TGI-Tilbury-Reconsideration-Reasons.pdf.

¹⁷ Order G-68-10, p. 14.

There are a number of issues arising regarding the treatment of the 2.3 MW TEC once it is replaced by the new 8 MW TEC. Based on the evidence, it is clear that upon replacement by the 8 MW TEC, the existing 2.3 MW TEC will no longer be “used and useful” in the UniverCity NUS. Accordingly, the Panel finds it is not appropriate for the 2.3 MW TEC to remain in rate base and for the costs to continue to be recovered from UniverCity ratepayers once the new 8 MW TEC has been installed.¹⁸

17. In short, the application of regulatory principle supports the inclusion of BC Hydro’s substation properties in rate base. They are providing value to customers by preserving valuable options. In any event, as AMPC appears to concede, the determination of rate base has no practical impact in this Test Period.

(c) Reply to AMPC Regarding Prudence of Property Acquisitions

18. Counsel for BC Hydro noted during oral argument that the determination of what should and should not be included in rate base is a distinct issue from whether forecast carrying costs associated with the properties should be recoverable. Carrying costs must be recovered in rates because the property acquisitions were prudent and the forecast amount of carrying costs flowing from ownership are reasonable. AMPC argues that BC Hydro has provided insufficient information to conclude that the property acquisitions were prudent, as that information will only be available when BC Hydro files its CPCN applications.¹⁹ BC Hydro submits that it has filed sufficient information to conclude at this time that the purchases were prudent. BC Hydro addressed this topic in paragraphs 356 to 358 of its Final Submission. Amongst other points, the evidence shows that:

- the property purchases mitigate project risk; and
- BC Hydro needed to acquire the properties in order to advance the projects sufficiently to bring forward a project for the BCUC’s consideration that meets the requirements of the BCUC’s CPCN guidelines.

¹⁸ Order G-215-15, pp. 6 and 8.

Online: <https://www.ordersdecisions.bcuc.com/bcuc/orders/en/127280/1/document.do>.

¹⁹ AMPC Additional Submissions, p. 2.

19. In the CPCN proceedings, the BCUC will ultimately consider whether the substation projects are in the public interest. However, at this time, BC Hydro has reasonably purchased the properties to advance its preferred alternative to bring before the BCUC for consideration.

E. REPLY ON QUESTION 6 (GGRR / PRESCRIBED UNDERTAKINGS)

(a) Reply to Ms. Gjoshe Regarding Process for Advanced Assessment

20. Counsel for BC Hydro confirmed in oral argument that BC Hydro will be considering the issues related to advanced assessment of prescribed undertakings, and will be reaching out to BCUC staff when this argument phase is completed.²⁰ However, Ms. Gjoshe urges the BCUC to direct BC Hydro “to start this process of bilateral discussions with BCUC staff at the earliest; and to establish a timeline for it with clear process expectations for the benefit of all involved.”²¹ In BC Hydro’s view, there is no need for direction of this kind. BC Hydro has already committed to engaging staff, and setting out any process steps now would be premature. BC Hydro requests that the BCUC allow time for BC Hydro to consider the issues involved, which will in turn allow BC Hydro to engage BCUC staff in an informed discussion about the path forward.

21. Ms. Gjoshe also submits that “BC Hydro must provide identification phase cost estimates” for the Bear Mountain and North Montney projects.²² These projects are in early stages and limited information is available at this time, as Ms. Holland explained with respect to the North Montney project:

So the North Montney project was released as the next planned project into my group. We have assigned a project manager. We are in the identification phase, we are in the earliest phases of the project. We do not have a route, we have not initiated First Nations consultation. There is very little that we know at this stage and we do not have an in-service date for the project as of yet.²³

22. BC Hydro will provide updates on these projects in its next revenue requirement application.

²⁰ Tr. 16, p. 2972, ll. 16-21 (Bystrom).

²¹ Gjoshe Additional Submissions, pp. 1-2.

²² Gjoshe Additional Submissions, p. 2.

²³ Tr. 11, p. 2091, ll. 10-17 (Holland).

(b) Reply to Mr. Ince Regarding Purpose of Advanced Assessments

23. Mr. Ince's submissions suggest a misunderstanding of the purpose of an advanced assessment of prescribed undertakings. The goal of such a process would not be to minimize potential stranded costs or to realize efficiencies, as Mr. Ince suggests.²⁴ The purpose of any advanced assessment process would be for the BCUC to confirm that a project or program is a prescribed undertaking. The purpose would not be to analyze the need for or alternatives to such projects or programs, or to second guess the government's policy decisions underlying prescribed undertakings. Please see paragraph 124 of BC Hydro's Reply Submissions regarding why the need for and alternatives to exempt projects are not subject to review.

F. REPLY ON QUESTION 7 (INCLUSION OF FORECAST WRITE-OFFS IN RATES)

(a) Reply to BCOAPO Regarding Regulatory Principles and Forecast Write-Offs

24. Counsel for BC Hydro articulated that the proposed inclusion of a forecast of write-offs in rates is based on sound principle. BCOAPO replies that "[a]bsent evidence of a factual driver, our clients continue to oppose this aspect of BC Hydro's application".²⁵ BCOAPO also suggests that the economic impacts of the COVID-19 pandemic are important "particularly as BC Hydro continues to advocate for its approval in the absence any asserted driver beyond 'we can, so we should.'"

25. BC Hydro submits that the proper application of regulatory principles is a reasonable basis, in and of itself, to adopt a different treatment of these costs. Sound regulatory principle remains relevant and applicable despite the pandemic. BC Hydro has implemented relief measures to assist customers adversely affected by the pandemic.

(b) Reply to AMPC Regarding Regulatory Practice and Forecast Write-Offs

26. AMPC again points to the absence of evidence that other Canadian utilities forecast project write-off expenses.²⁶ BC Hydro submits that regulatory principles should be applied as

²⁴ Ince Additional Submissions, pp. 1-2.

²⁵ BCOAPO Additional Submissions, p. 3.

²⁶ AMPC Additional Submissions, p. 3.

appropriate to the facts before the BCUC, such that the overall result is just and reasonable. In this instance, the principles and the evidence support BC Hydro's approach.

G. CONCLUSION

27. BC Hydro respectfully submits that its submissions on the Panel questions, and in response to interveners on these topics, are persuasive and should be accepted.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated:	June 22, 2020	<i>[original signed by Matthew Ghikas]</i>
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		Matthew Ghikas
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Dated:	June 22, 2020	<i>[original signed by Christopher Bystrom]</i>
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