



LETTER NO. L-13-04

ROBERT J. PELLATT
COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: <http://www.bcuc.com>

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 4586, 5318

VIA E-MAIL / FACSIMILE
604-646-2506

February 23, 2004

Mr. R. Brian Wallace
Bull, Housser & Tupper
3000 Royal Centre, PO Box 11130
1055 West Georgia Street
Vancouver, B.C. V6E 3R3

Dear Mr. Wallace:

Re: British Columbia Hydro and Power Authority
Project No. 3698360 – Order No. G-84-03
Request for Review and Variance of Commission Order No. G-8-04

The Commission has reviewed your February 12, 2004 request, on behalf of the Joint Industry Electricity Committee ("JIESC"), for review and variance of Commission Order No. G-8-04, including the grounds for your request. The JIESC request does not specify the section of the Utilities Commission Act that it relies upon for review and variance of this Order. However, Section 99 of the Act is generally considered to be the operative section for review and variance of a Commission Order, and it states:

"The commission may reconsider, vary or rescind a decision, order, rule or regulation made by it, and may rehear an application before deciding it."

Therefore, under Section 99 of the Act, the authority of the Commission to allow a reconsideration is discretionary, and does not require the Commission to seek other submissions. The Commission's discretion to reconsider and vary a decision or order is applied with a view to ensuring that there is consistency and predictability in the Commission's decision-making. For a reconsideration to proceed, the reconsideration applicant is required, on a prima facie basis, to meet one or more of the following criteria:

1. An error in fact or law;
2. A fundamental change in circumstance or facts since the decision;
3. A basic principle that had not been raised in the original proceedings; or
4. A new principle that has arisen as a result of the decision.

The JIESC request does not address the normal Commission criteria for reconsideration, except for the reliance on Section 89 of the Act. That is, the JIESC request implies that the Commission made an error in law by not using Section 91(1) to determine whether interim rate relief was appropriate.

The Commission has, on occasion, used Section 91(1) for the purpose of setting interim rates. However, as participants are aware, the more ordinary course or practice has been for the Commission to use Section 89 to approve interim rate increases. The use of Section 89 to approve interim rates was discussed at the pre-hearing conference held on January 14, 2004 and was supported by counsel for the Commission, the Utility and BCPIAC. Its validity in these circumstances and whether it improperly overrides Section 58(1) is a question of law, not a question of fact, and has not previously been challenged by any participant.

The Commission does not grant interim increases merely as a convenience to the utility. The Commission considered the comments concerning process made at the pre-hearing conference but determined that it continues to be appropriate, in this instance, for the Commission to follow its practice of granting the requested interim relief under Section 89 without a process or further input from participants. The Commission considered that BC Hydro had put forth *prima facie* evidence that the relief should be granted and the Commission notes, particularly, that the interim award is subject to refund, with interest, after a hearing. As noted by participants at the pre-hearing conference, the Commission cannot and should not fully examine all the issues in a utility rate application prior to granting interim relief. While a number of intervenors supported a limited process with respect to the interim, it was also emphasized that it is important to BC Hydro customers to have as much notice as possible as to the interim rates to be approved by the Commission.

JIESC's request for review and variance of Commission Order No. G-8-04 is denied.

Yours truly,

Original signed by:

Robert J. Pellatt

cc: Mr. Richard Stout
Chief Regulatory Officer
British Columbia Hydro and Power Authority

Registered Intervenors
(BCH04RR-RI)



**Bull,
Housser
& Tupper**

3000 Royal Centre . PO Box 11130
1055 West Georgia Street
Vancouver . BC . Canada . V6E 3R3
Phone 604.687.6575 Fax 604.641.4949
www.bht.com

Reply Attention of:	R. Brian Wallace
Direct Phone:	604.641.4852
Direct Fax:	604.646.2506
E-mail:	RBW@bht.com
Our File:	03-3899
Date:	February 12, 2004

BY COURIER AND E-MAIL

British Columbia Utilities Commission
Box 250
600 - 900 Howe Street
Vancouver BC V6Z 2N3

Attention: Robert Pellatt, Commission Secretary

Dear Sirs/Mesdames:

**Re: Project No. 3698360 BC Hydro 2004-6 Revenue Requirements Application
Request for Review and Variance of Commission Order No. G-8-04**

At the pre-hearing conference on January 14, 2004, we requested, on behalf of the Joint Industry Electricity Steering Committee ("JIESC"), that Intervenor be given an opportunity to make submissions on the merits of granting BC Hydro the interim relief it was seeking at that time. A substantial number of other Intervenor supported our request that such an opportunity be granted. At the specific direction of the Commission, we did not address at that time the merits of whether interim relief should be granted or not.

On January 23, 2004 we received a copy of Order G-8-04 approving BC Hydro's request for interim rates. This Order was granted without providing an opportunity for Intervenor's comments on the merits of the interim application, and without any mention of the requests to address the Commission on this important matter. The interim relief granted amounts to 7.23% on current rates and approximately \$177 million in F2005. Approximately \$36 million of this will come from large industrial customers.

We hereby request that the Commission review and vary Order G-8-04 to reduce the interim rate increase that has been granted to BC Hydro. The grounds for this request are:

1. The BC Utilities Commission did not provide an opportunity for interested parties to comment on the Interim Application, in spite of the fact that interested parties had requested an opportunity to do so, and time permitted such comments since the interim rates do not take effect until April 1, 2004.



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2. The application is far reaching and contains at least one request for relief in circumstances in which Commission has not granted interim relief in the past.

The normal practice of the BCUC has been to refuse to grant interim relief where the increase is due to changes in return on equity or novel changes in accounting treatment before hearing evidence. In this Application, BC Hydro has requested that \$233 million be transferred from its Future Removal and Site Restoration (FRSR) account to Retained Earnings. This amount represents money that was collected from customers for the specific purpose of meeting future FRSR obligations, not for the purpose of increasing BC Hydro's equity. This amount is in effect "Negative Salvage" or cost of retirement that should be treated as accumulated depreciation, if not refunded to customers. The effect of the transfer to equity rather than to accumulated depreciation or applying the amount to present and future rate increases will increase BC Hydro's revenue requirement by \$32 million per year or roughly 18% of the increase BC Hydro is seeking for F2005 (1.3% of the 7.2% increase applied for).

The increased revenue is not required to meet cost increases experienced by BC Hydro. It is simply a negative side-effect of an accounting change. Furthermore, BC Hydro has proposed to recover FRSR costs from customers in future rates, in effect recovering the costs twice.

It is our submission that good regulatory practice and the Commission's own past practices indicate this amount should not be collected on an interim basis prior to the hearing of any evidence.

3. Prior to filing of the revenue requirements application, BC Hydro had been telling ratepayers that they would likely face multiple increases in the range of 3% to 6% over a two to three year period. As a result, customers budgeted for F2005 on this basis. The increase from 6% to 7.23% represents a substantial unbudgeted increase, particularly for industrial customers, who continue to face competitive markets from the disadvantage of a strengthening Canadian dollar.

Jurisdiction to award Interim Relief

Order G-8-04 relies on Section 89 of the BCUC Act in granting BC Hydro its Interim Rate increase. Section 89 provides that the Commission may "make an order granting the whole or part of the relief applied for or may grant further or other relief, as the Commission considers advisable." This appears to be a very broad power, however, in our submission, this general provision should not be read to override the specific requirements of Section 58(1) and Section 91(1).

Section 58(1) of the *Utilities Commission Act* provides the Commission with its basic authority to set rates. The section states that the Commission may... "determine the just, reasonable and



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sufficient rates to be observed and in force" but requires such determination to be made "after a hearing". It is our submission that the Commission's decision to ignore the requests of interested parties for an opportunity for input into the rates is contrary to the clear requirements of Section 58(1).

The only other provision of the Act that may authorize an order for interim rates is Section 91. Section 91(1) provides "If the special circumstances of the case so requires, the commission may, without notice, make an interim order authorizing, requiring or forbidding anything to be done that the commission is empowered to authorize, require or forbid on application, notice or hearing."

In our submission, there are no special circumstances here warranting an interim rate increase without notice. BC Hydro filed its Application well in advance of the interim relief taking affect and the Commission clearly had, and still has, sufficient time to seek interested party input with respect to the interim relief requested prior to implementing the increased rates.

All of which is respectfully submitted on behalf of the JIESC.

Yours truly,

Bull, Housser & Tupper

R. Brian Wallace

for / R. Brian Wallace

RBW/nsu/1173976

cc. BC Hydro
Intervenors