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ORDER NUMBER
G-281-23

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

British Columbia Hydro and Power Authority
Compliance with Directives 20 and 87 from the Fiscal 2023 to Fiscal 2025 Revenue Requirement Application Decision and Order G-91-23

BEFORE:
A. K. Fung, KC, Commissioner

on October 19, 2023

ORDER

WHEREAS:

A. On July 19, 2023, British Columbia Hydro and Power Authority (BC Hydro) submitted a compliance filing (Compliance Filing) to the British Columbia Utilities Commission (BCUC) related to its Fiscal 2023 to Fiscal 2025 Revenue Requirements Application (RRA), in accordance with various directives, including Directives 20 and 87 of Decision and Order G-91-23;

B. Directive 20 of Decision and Order G-91-23 directed BC Hydro to file in the Compliance Filing a proposal for how best to implement Residential Consumer Intervener Association's (RCIA) recommendations for incorporating both pre-capital investment risk scores and post-capital investment risk scores into Appendices I & J and the timing for same in future RRAs;

C. Directive 87 of Decision and Order G-91-23 directed BC Hydro to suggest in the Compliance Filing a reasonable time limit on confidentiality and the rationale therefor;

D. In response to Directive 20 of Decision and Order G-91-23, BC Hydro provided in section 3 of the Compliance Filing two options on how best to implement RCIA's recommendations. In response to Directive 87 of Decision and Order G-91-23, BC Hydro provided in section 5 of the Compliance Filing the information directed and requested an order that the BCUC will continue to hold the confidentially filed materials in the BC Hydro Fiscal 2023 to Fiscal 2025 RRA proceeding as confidential on an ongoing basis, until otherwise determined by the BCUC;

E. Subsequent to BC Hydro's responses to BCUC Staff Questions No. 1 filed on August 9, 2023, by letter dated August 30, 2023, the BCUC invited both RCIA to provide a submission to the BCUC regarding BC Hydro's response to Directive 20 of Decision and Order G-91-23 and BC Hydro to provide a reply submission;

F. RCIA's submission and BC Hydro's reply submissions were filed on September 13, 2023 and September 27, 2023, respectively; and

G. The BCUC has completed its review of the Compliance Filing with respect to Directives 20 and 87 of Decision and Order G-91-23, BC Hydro's responses to BCUC Staff Questions No. 1, and RCIA's and BC Hydro's respective submissions, and finds that the following orders are warranted.

NOW THEREFORE for the reasons set out in Appendix A attached to this order, the BCUC orders as follows:

1. BC Hydro's Compliance Filing with respect to Directive 20 of Decision and Order G-91-23 is not accepted.
2. BC Hydro is directed to file, within 60 days of this Order, either: (i) a new compliance filing that meets the requirements of Directive 20 of Decision and Order G-91-23 and that also demonstrates how its proposal implements RCIA's recommendations for incorporating both pre- and post-capital investment risk scores into Appendices I & J in future RRAs or (ii) an application for a variance or reconsideration of Directive 20 in accordance with Section 26 of Part V of the BCUC's Rules of Practice and Procedure.
3. The confidentially filed materials in the BC Hydro Fiscal 2023 to Fiscal 2025 RRA proceeding will continue to be held as confidential on an ongoing basis, until otherwise determined by the BCUC.

DATED at the City of Vancouver, in the Province of British Columbia, this 19th day of October 2023.

BY ORDER

Original signed by:

A. K. Fung, KC
Commissioner

Attachment

British Columbia Hydro and Power Authority
Compliance with Directives 20 and 87 from the Fiscal 2023 to Fiscal 2025 Revenue Requirement Application
Decision and Order G-91-23

REASONS FOR DECISION

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1.0 Background and Regulatory Process

On July 19, 2023, British Columbia Hydro and Power Authority (BC Hydro) submitted a compliance filing (Compliance Filing) to the British Columbia Utilities Commission (BCUC) related to its Fiscal 2023 to Fiscal 2025 Revenue Requirements Application (RRA), in accordance with various directives, including Directives 20 and 87 of Decision and Order G-91-23.

Directive 20 stated:

> The Panel directs BC Hydro to file in its Compliance Filing a proposal for how best to implement RCIA's [Residential Consumer Intervener Association's] recommendations for incorporating both pre-capital investment risk scores and post-capital investment risk scores into Appendices I & J and the timing for same in future RRAs.

Directive 87 stated:

> The Panel directs BC Hydro to suggest in its Compliance Filing a reasonable time limit on confidentiality and the rationale therefor.

The Panel reviews BC Hydro's response to these directives in Sections 2.0 and 3.0 of these Reasons for Decision, respectively.

The regulatory process for the review of BC Hydro's Compliance Filing with respect to Directive 20 included one round of BCUC staff questions to BC Hydro, a submission from RCIA, and a reply submission from BC Hydro. The Panel did not request further evidence or submissions regarding BC Hydro's Compliance Filing with respect to Directive 87.

2.0 Directive 20 of Decision and Order G-91-23

2.1.1 Background

In RCIA's final argument in the BC Hydro Fiscal 2023 to Fiscal 2025 RRA proceeding, RCIA proposed improvements to the 2018 Capital Filing Guidelines.[1] The 2018 Capital Filing Guidelines set out certain information BC Hydro must include in its RRAs for all individual projects above a specific materiality limit. In accordance with these guidelines, BC Hydro provided Appendices I and J in its F2023 to F2025 RRA. Appendix I contained a spreadsheet listing all projects over $5M with spend in the test period, identifying major project filings (Certificate of Public Convenience and Necessity (CPCN) or *Utilities Commission Act* (UCA) section 44.2 capital expenditure schedule). Appendix J contained summaries of projects over $20 million with spend in the test period.[2]

In the Decision to BC Hydro's Fiscal 2023 to Fiscal 2025 RRA, the BCUC found merit in RCIA's recommendations for BC Hydro to provide enhanced risk reporting by including the following items in Appendices I and J in its next RRA:[3]

[1] BC Hydro Fiscal 2023 to Fiscal 2025 RRA proceeding, RCIA Final Argument, p. 76.
[2] Decision and Order G-91-23 to BC Hydro's Fiscal 2023 to Fiscal 2025 RRA, p. 90.
[3] Decision and Order G-91-23 to BC Hydro's Fiscal 2023 to Fiscal 2025 RRA, p. 102.

1) Appendix I: Replace the current pre-capital investment Risk Score (Column AC) showing the single highest uncategorized risk with columns of the highest pre-capital investment risk score in each of the five risk categories (Safety, Environment, Financial Loss, Reputational, Reliability).
2) Appendix I: Add columns for the post-capital investment risk scores for the highest risk score in each of the five risk categories (Safety, Environment, Financial Loss, Reputational, Reliability).
3) Appendix J: Replace the currently unquantified pre-capital investment Key Drivers (which are currently only consequence categories and not risks), with the highest risk score in each of the five risk categories (Safety, Environment, Financial Loss, Reputational, Reliability).
4) Appendix J: Add to Key Drivers, the post-capital investment risk scores for the highest risk score in each of the five risk categories (Safety, Environment, Financial Loss, Reputational, Reliability).

In that Decision, the BCUC also recognized BC Hydro's submission that it currently does not do any post-capital investment risk scores for any of its projects and does not have the capacity to do so. Accordingly, the BCUC directed BC Hydro to file in its Compliance Filing a proposal for how best to implement RCIA's recommendations for incorporating both pre-capital investment risk scores and post-capital investment risk scores into Appendices I and J and the timing for the same in future RRAs. The BCUC also emphasized its expectation that this would enable interveners and the BCUC to better understand the strategy underlying the formulation of BC Hydro's Capital Plan and the prioritization of capital projects and thereby, reducing the number of information requests relating to the same.[4]

2.1.2 BC Hydro's proposal to meet Directive 20

BC Hydro explains in the Compliance Filing that its current pre-project risk scores included in Appendices I and J are the risks of deferring the capital investment. BC Hydro explains that based on its current methodology of pre-project risks scores as risks of not doing the investment, by definition the post-project risk score would be zero.[5]

In section 3 of the Compliance Filing BC Hydro provides the following two options on how best to implement RCIA's recommendations:[6]

1. Develop an Asset-Based risk framework to generate pre- and post-capital investment Asset-Based risk scores (Option 1); and
2. Develop a value framework to facilitate Value-Based Decision Making (VDM) (Option 2).

BC Hydro proposes to pursue Option 2, implementing a value framework to facilitate VDM, which BC Hydro states will provide a consistent means to assess the costs, benefits, risks, and performance of investments under consideration.[7]

BC Hydro states it also considered developing a new Asset-Based risk framework based on BC Hydro's Capital Allocation Risk Matrix. This option would provide pre- and post-capital investment Asset-Based risks scores for Power System investments in Appendices I and J classified as "For Prioritization" across the five risk consequence types.[8] It also states that while the Asset-Based Risk Scores option would provide a pre- and post-capital investment risk score, it would not meet the intent of the directive to enable the BCUC and interveners

[4] Decision and Order G-91-23 to BC Hydro's Fiscal 2023 to Fiscal 2025 RRA, p. 102.
[5] BC Hydro Compliance Filing to Decision and Order G-91-23, pp. 40–41.
[6] BC Hydro Compliance Filing to Decision and Order G-91-23, p. 42.
[7] BC Hydro Compliance Filing to Decision and Order G-91-23, p. 43.
[8] BC Hydro Compliance Filing to Decision and Order G-91-23, pp. 42–43.

to better understand the strategy underlying the formulation of BC Hydro's capital plan and the prioritization of capital investments, as BC Hydro considers investment deferral risk as opposed to asset-based risk when prioritizing investments in the 10-year capital plan.[9]

BC Hydro explains that the industry is moving towards the practice of integrating risk assessment into a broader value framework that encompasses various aspects of asset management. BC Hydro states that adopting a value framework rather than an asset-based risk score would improve its capital plan decision-making process towards a comprehensive evaluation of multiple dimensions.[10]

BC Hydro states it intends to implement the VDM solution and that it does not yet have a cost estimate for the project.[11] BC Hydro states it has not yet begun the development and implementation work as its subject matter experts are fully committed to other priorities. It expects the solution will take two years to implement and will not be available for filing in BC Hydro's next RRA, but it will provide an update on the implementation in its next RRA.[12]

BC Hydro states that the Asset-Based risk framework option more closely meets the spirit of RCIA's recommendation, but that the value framework is preferable as it provides an assessment of the costs, benefits, risks and performance of investments under consideration.[13]

Positions of Parties

RCIA submits that BC Hydro has failed to address Directive 20 of Order G-91-23. Directive 20 clearly and concisely defines what BC Hydro is directed to accomplish while leaving BC Hydro flexibility to determine how and when it will deliver what is directed.[14]

RCIA submits that Directive 20 is not intended to provide a mandate to advance BC Hydro's internal framework, but to provide the BCUC and interveners access to sufficient objective information to evaluate BC Hydro's capital plans, as stated by the BCUC in its Decision on the RRA.[15]

RCIA submits that BC Hydro has missed the direct wording and intent of Directive 20 in planning to implement Option 2. In contrast, RCIA submits that the Asset-Based Framework BC Hydro rejects does provide the Directive 20 directed data. RCIA submits that the objective of Directive 20 was to provide interveners and the BCUC the data they need in the regulatory space, and not to "re-vamp" BC Hydro's internal frameworks for capital prioritization.[16]

Regarding timing, RCIA asserts that based on the simplified approach it recommends, BC Hydro should be able to implement Directive 20 prior to the next RRA. RCIA submits that BC Hydro currently has the risk assessment tools to perform the necessary assessments and only requires process modifications to expand those risk assessment tools to satisfy Directive 20.[17]

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[9] BC Hydro Compliance Filing to Decision and Order G-91-23, p. 46.
[10] BC Hydro Compliance Filing to Decision and Order G-91-23, pp. 45–46.
[11] BC Hydro Responses to BCUC Staff Questions 1.12, 1.7.
[12] BC Hydro Responses to BCUC Staff Questions 1.8.
[13] BC Hydro Responses to BCUC Staff Questions 1.6.
[14] Exhibit C1-2, p. 1.
[15] Exhibit C1-2, pp. 2–3.
[16] Exhibit C1-2, p. 4.
[17] Exhibit C1-2, p. 7.

RCIA recommends BC Hydro be directed to file a second Compliance Filing wherein it meets the requirements of Directive 20 using the same asset-based risk assessment used to justify the pre-investment capital. RCIA views that this straight-forward approach will "avoid unnecessary delay and without the need for revamping of BC Hydro's entire enterprise-wide framework for capital prioritization, a mandate whose necessity has not been tested before the BCUC."[18]

In Reply, BC Hydro submits that Option 1 above would implement RCIA's recommendations, while Option 2 would implement a value framework, which BC Hydro submits is preferrable for meeting the BCUC's stated expectation.[19]

BC Hydro submits that it currently does not have and cannot provide all the pre- and post-capital investment risk scores RCIA is asking for. Further, if BC Hydro were to adopt Option 1, BC Hydro would need to develop asset-based risk scores for over one thousand investments in the Power System 10-year capital plan, and would require engagement with the broad community of internal planners and asset managers. BC Hydro submits that implementing RCIA's recommendations would be a complex and extensive undertaking, requiring approximately one year to develop the framework before it could be applied in a subsequent capital planning cycle. In addition, BC Hydro would need to investigate the usefulness of the data collected in Option 1 for prioritization and capital planning.[20]

BC Hydro submits that Option 2 is its preferred option for four primary reasons:[21]

1) A value framework provides an improved investment decision framework, particularly in respect to comprehensive evaluation of multiple value dimensions and assessment of the change in value over time;
2) Discussions with industry subject matter experts has indicated that more mature asset management organizations have implemented a value framework to optimize their capital portfolios;
3) The implementation of a value framework is aligned with ISO 55000 – Asset Management standards; and
4) Adoption of a value framework is an enabling step towards the future adoption of an asset investment planning solution.

BC Hydro submits it does not have time to implement the required changes for either option before the start of capital planning for the next RRA. Therefore, BC Hydro intends to implement Option 2 in time for the subsequent RRA.[22]

Panel Determination

The Panel finds that BC Hydro has not complied with Directive 20 of Decision and Order G-91-23. Therefore, **the Panel directs that, within 60 days of the date of Order G-281-23, BC Hydro either: (i) file a new compliance filing that meets the requirements of Directive 20 of Decision and Order G-91-23 and that also demonstrates how its proposal implements RCIA's recommendations for incorporating both pre- and post-capital investment risk scores into Appendices I & J in future RRAs or (ii) file an application for a variance or**

[18] Exhibit C1-2, p. 8.
[19] Exhibit B-3, p. 2.
[20] Exhibit B-3, p. 3.
[21] Exhibit B-3, p. 4.
[22] Exhibit B-3, p. 5.

reconsideration of Directive 20 in accordance with Section 26 of Part V of the BCUC's Rules of Practice and Procedure.

In the Decision to BC Hydro's Fiscal 2023 to Fiscal 2025 RRA, the BCUC found merit in RCIA's recommendations and directed BC Hydro provide a proposal in the Compliance Filing on how best to implement those recommendations. The Panel is not persuaded by the evidence provided in this proceeding that Option 2 would substantively implement RCIA's recommendations for incorporating both pre- and post-capital investment risk scores into Appendices I & J in future RRAs. The Panel agrees with RCIA's submission that BC Hydro has failed to comply with the terms of Directive 20. The Panel also notes BC Hydro's statement that the Asset-Based Risk Scores option (i.e. Option 1) would provide pre- and post-capital investment risk scores. As RCIA correctly points out, Option 1 would align with RCIA's recommendations as stated in Directive 20 compared to the VDM option (i.e. Option 2) that BC Hydro plans to implement as an improvement to its current capital planning process. Having said this, the Panel is cognizant of BC Hydro's submission that Option 1 would not enable the BCUC and interveners to better understand the strategy underlying the formulation of BC Hydro's capital plan and the prioritization of capital investments, while Option 2 would.

In the Panel's view, the substance of the evidence provided by BC Hydro in this proceeding is to seek to vary Directive 20 to allow BC Hydro to pursue an option that does not implement RCIA's recommendations, but would, in BC Hydro's opinion, allow parties a better understanding of its capital plan and investment prioritization. However, BC Hydro has not asked for a variance to Directive 20 and it has not provided specific grounds for reconsideration in accordance with Section 26.05 of Part V of the BCUC's Rules of Practice and Procedure[23] to allow for this Panel to consider a variance of that directive in this compliance filing proceeding. Therefore, if BC Hydro so chooses, the Panel grants leave to BC Hydro to file an application for a variance or reconsideration of Directive 20 beyond 60 days from the issuance of that directive.[24]

3.0 Directive 87 of Decision and Order G-91-23

In response to Directive 87 of Decision and Order G-91-23, BC Hydro provides in section 5 of the Compliance Filing information regarding a reasonable time limit on the confidentiality of the confidentially filed information in its Fiscal 2023 to Fiscal 2025 RRA proceeding and the rationale. BC Hydro explains that the confidentially filed information will remain commercially or otherwise sensitive for the foreseeable future and is not of a nature where a release date can be pre-determined. BC Hydro also states that "[a]ny public policy considerations favouring disclosure in this BCUC process diminish now that the proceeding has concluded" and that the public has access to other mechanisms for requesting materials. BC Hydro also argues that there are challenges, administrative burden and risk of inadvertent disclosure inherent in speculating about the future sensitivity of information and trying to track confidential information on an item-by-item basis. BC Hydro also requests the following order: "The BCUC will continue to hold the confidentially filed materials in this proceeding as confidential on an ongoing basis, until otherwise determined by the BCUC."[25]

Panel Determination

The Panel approves BC Hydro's request for the BCUC to continue holding the confidentially filed materials in the BC Hydro Fiscal 2023 to Fiscal 2025 RRA proceeding as confidential on an ongoing basis, until otherwise determined by the BCUC. The Panel is satisfied with BC Hydro's explanation in the Compliance Filing with

[23] BCUC Rules of Practice and Procedure as approved by Order G-72-23.
[24] BCUC Rules of Practice and Procedure, Section 26.02.
[25] Exhibit B-1, p. 50.

respect to the reasons why the confidentially filed materials should continue to be held confidential and why an earlier release date cannot be pre-determined.