

1 **Q. IIC Rate Phase-in**

2 (Re: Amended GRA) OC2013-089, as amended, states (paras. 1 and 5) *“Effective*
3 *September 1, 2013, Island industrial customer rates will no longer be frozen.*
4 *Effective on this date rate increases for Island industrial customers will be phased in*
5 *over a three year period, with funding for this phase-in to be drawn from the*
6 *January 1, 2007 to August 31, 2013 accumulated load variation (the Rate*
7 *Stabilization Plan Surplus) component of the Rate Stabilization Plan and credited to*
8 *the Island industrial customer Rate Stabilization Plan effective August 31, 2013”* and
9 *“Notwithstanding Items 1) through 4) above, effective January 1, 2014, the Island*
10 *industrial customers will be subject to Rate Stabilization Plan rate changes in*
11 *accordance with the Board of Commissioners of Public Utilities-approved*
12 *methodology”*. Please provide Hydro’s opinion on what these clauses mean and
13 explain how Hydro has met the requirements, and when it has not met the
14 requirements, explain why.

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17 **A.** Hydro was directed by the Government in OC2013-090 to “bring about such
18 applications and information” to the Board such that Island Industrial Customers’
19 (IIC) rates, which had been frozen since 2008, would be phased in over a three-year
20 period commencing September 1, 2013, and that RSP rate changes would resume
21 effective January 1, 2014. The Board was similarly directed by Government in
22 OC2013-089, as amended, to phase in IIC rates commencing September 1, 2013 and
23 that RSP rate changes would resume effective January 1, 2014.

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25 In compliance with OC2013-090, Hydro filed an Application on July 30, 2013 for the
26 first phase of the IIC phase-in of customer rates. Hydro’s Application was approved
27 by the Board in Order No. P.U. 26(2013) dated August 30, 2013. The rate impacts of

the September 1, 2013 rate change were a 22.4% increase for Teck Resources and a 19.1% average increase for the other IIC.

In compliance with OC2013-090 as amended, on November 18, 2013, Hydro proposed that the annual IIC RSP rate changes would resume effective January 1, 2014. The proposed RSP change was part of Hydro's Interim Rates Application and would have resulted in an estimated RSP increase for IIC of 3.4% effective January 1, 2014. In its ruling on the matter of the proposed IIC RSP rate change, the Board in Order No. P.U. 40(2013) dated December 13, 2013 approved that the RSP rate currently in effect for IIC would continue. This was accomplished by means of adding a new clause to Section D of the RSP rules. Hydro's submission on this matter stated that "[i]n Hydro's view, the Board's proposed amendment to the RSP rules is not in keeping with the spirit and intent of Order in Council directive OC2009-089, as amended."

In compliance with OC2013-090, and as part of its Interim Rate Application filed on November 18, 2013, Hydro also requested new IIC base rates effective January 1, 2014. A January 1, 2014 rate increase was contemplated in Government's designation of \$49 million of the RSP Surplus for the IIC rate phase-in. As stated in Hydro's Interim Rates Evidence filed November 18, 2013¹:

As stated in response to Request for Information PUB-NLH-78 filed during the 2013 RSP proceeding, the calculation of the amount of \$49 million contemplates that Hydro's proposed GRA rates for IC would come into effect on January 1, 2014.

Hydro's filings on July 30, 2013 and November 18, 2013 were focused on Hydro meeting its obligations under Government's directive, which, as outlined above,

¹ Page 8, Lines 3 to 5.

1 were twofold: (i) IIC RSP annual rate changes would resume effective January 1,
2 2014 and (ii) Hydro's proposed GRA rates for IC would come into effect on January
3 1, 2014.

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5 In Order No. P.U. 40(2013) dated December 13, 2013, the Board stated as follows:

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7 The Board agrees that it would appear that when the Government
8 Direction was originally drafted it contemplated implementation of rate
9 changes for the Industrial Customers as of January 1, 2014 but this would
10 have been in the context of the General Rate Application which proposed
11 new rates for all customers as of January 1, 2014. However circumstances
12 are such that the General Rate Application is a long way from being
13 completed. The Board notes that Hydro did not argue that the proposed
14 amendment is contrary to the language of OC2013-089.
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16 In making its November 18, 2013 filing in compliance with OC2013-90, Hydro had
17 viewed that the Board could use its authority under the Act to implement interim
18 rates² on January 1, 2014 in order to meet its own requirements of Government
19 directive OC2013-089. Hydro acknowledges, but disagrees with, the Board's view
20 that the General Rate Application must be completed (or substantially completed)
21 prior to Industrial Customers' rate changes being implemented. The result of
22 holding this view is that the Board has limited its ability to meet the January 1, 2014
23 date contemplated in the directive. Hydro believes it has met its own
24 requirements under the Order in Council.
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26 As outlined above, Hydro was directed by the Government in OC2013-090 to "bring
27 about such applications and information" to the Board such that IIC rates would be
28 phased in over a three-year period commencing September 1, 2013, and that RSP
29 rate changes would resume effective January 1, 2014. Since its GRA and related RSP

² Section 75 of the *Public Utilities Act*.

1 and Industrial Customers' Rates filings on July 30, 2013, Hydro has subsequently
2 filed three interim rates applications, an amended interim rates application and an
3 Amended Application, all of which have included proposals to phase-in IIC rates.
4 Hydro has attempted at each stage to adapt its proposals for each filing to the
5 changing circumstances it faces at the time of each filing.

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7 Hydro recognizes that implementation of interim rates is complex. This is made so
8 by the presence of the RSP calculations, the use of the RSP surplus and ensuring IIC
9 rates increases are smoothed over a period of time. Hydro also believes that
10 reaching a consensus among all the parties, who have conflicting goals, is likely not
11 achievable. Thus, meeting the standard of a simple, amenable solution in order to
12 implement interim rates may not be attainable.

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14 The Board has ample and broad jurisdiction to approve interim rates unilaterally
15 and without a hearing or public notice (section 75 of the *Public Utilities Act*). It
16 appears, however, that the Board believes it is not the proper thing to do. Board
17 Order No. P.U. 39(2014), on Hydro's Second Interim Rates Application, states as
18 follows:

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20 The Board must also in this case consider the direction from Government
21 and generally accepted sound public utility practice. These matters can and
22 should, in the Board's view, be addressed in the context of a general rate
23 application with complete and supported proposals for cost-based rates
24 that reflect the actual cost of providing service and allocation of these costs
25 to customers in accordance with established rate making principles. Until
26 Hydro files its amended general rate application the Board has little basis
27 upon which to assess the proposal for interim rates in this Application.

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29 These are similar sentiments as expressed above in the Board's Order No. P.U.
30 40(2013). Hydro believes it has met its own requirements as directed by the
31 Government in OC2013-090. It appears to be the Board's view that the General

1 Rate Application must be completed (or substantially completed) prior to Industrial
2 Customers' rate changes being implemented in accordance with the directive found
3 in OC2013-089. Hydro disagrees with this sentiment and observes that as a result
4 of this view, the Board again constrained its ability to continue the implementation
5 of the phase in IIC rates as contemplated in the directive.