

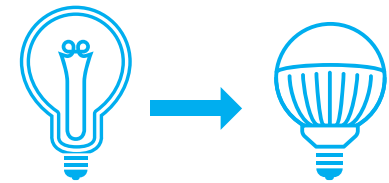
REGULATORY ACCOUNTS EXPLAINED

THE REASONS FOR REGULATORY ACCOUNTS

BC Hydro uses regulatory accounts to:

- 1 Better match costs with benefits to be enjoyed by future generations of customers.

#1 example:
Power Smart programs
(such as encouraging
behaviour changes to new
technologies) that have long
lasting benefits.



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- 2 Spread out the impact of large, one-time costs.

#2 example:
significant storm
damage costs (such as the
December 2006
Vancouver Island storms)



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- 3 Spread out the impact of unexpected costs and the difference between forecast and actual costs that are beyond the control of BC Hydro.

#3 example:
Changes in our energy
forecast due to low or high
water levels that are caused
by weather (such as flood or
drought years)

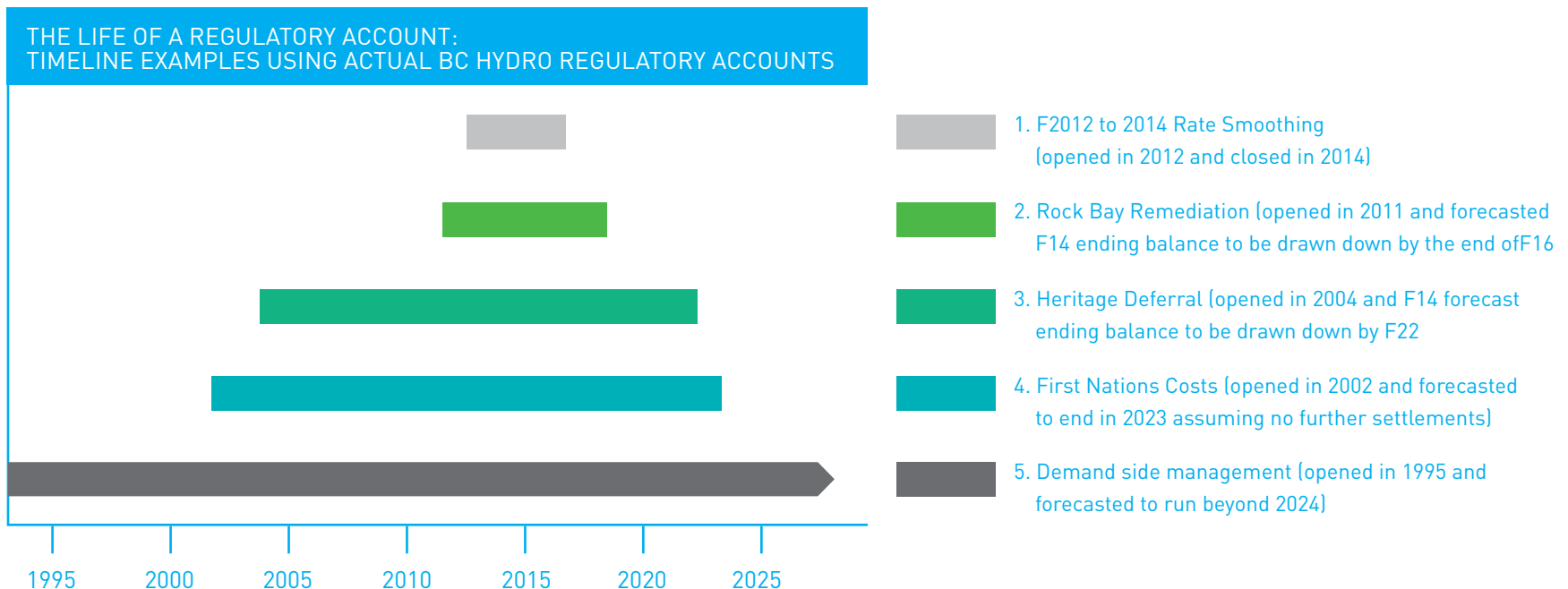


WHY USE REGULATORY ACCOUNTS?

- BC Hydro has used regulatory accounts in various forms since the 1980s.
- This is common practice across utilities in North America to help protect customers from volatile rate fluctuations and to better match costs with the benefit period.
- BC Hydro spends money for various reasons. Some products or services are used immediately and others are used over a longer period of time and provide benefits to future customers.
- It is only fair that those future customers should also share in the cost of the benefit that they are enjoying. Regulatory accounts ensure that those future customers do share in the cost.

PAYING DOWN THE REGULATORY ACCOUNTS

- The amounts captured in the regulatory accounts are primarily current expenses that are being recovered from ratepayers in future years.
- Regulatory accounts can be similar to capital projects amortized over the life of the project (i.e. the cost of a capital project is collected in rates over the life of the asset.)
- Some regulatory accounts are for special purposes or to capture one-time costs and are recovered in rates within a couple of years (#2). Others like Demand Side Management (#5) have costs added to it every year and will continue to have costs added every year, which is why we expect it to continue to have a sizeable balance.



MANAGING REGULATORY ACCOUNTS

- 80% of regulatory account balances are currently being recovered in rates.
- All regulatory accounts, with the exception of the provision accounts (recovered in rates when actual expenditures are made) and Site C (recovered when the asset goes into service) will be recovered in rates starting in Fiscal 2015.
- 84% of the forecast regulatory account balance in Fiscal 2024 will be in 5 accounts that are used to match costs with benefits or relate to the smoothing out of the impact of accounting rule changes.