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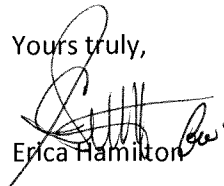
June 13, 2012

Ms. Janet Fraser
Chief Regulatory Officer
British Columbia Hydro and Power Authority
333 Dunsmuir Street
Vancouver, BC V6B 5R3

Dear Ms. Fraser:

Re: British Columbia Hydro and Power Authority
Project No. 3698622/Order G-40-11
F2012 to F2014 Revenue Requirements Application

Further to your March 1, 2011, revenue requirements application noted above and Direction No. 3 dated May 22, 2012, enclosed please find British Columbia Utilities Commission Order G-77-12.

Yours truly,

Erica Hamilton

cms

Enclosure

cc: Registered Interveners



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-77-12**

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

British Columbia Hydro and Power Authority
F2012 to F2014 Revenue Requirements Application

BEFORE: L.A. O'Hara, Panel Chair/Commissioner
D.M. Morton, Commissioner June 13, 2012
A.A. Rhodes, Commissioner

O R D E R

WHEREAS:

- A. On March 1, 2011, British Columbia Hydro and Power Authority (BC Hydro) filed its Revenue Requirements Application for its fiscal years 2012, 2013 and 2014 (F2012, F2013 and F2014) (the Application) with the British Columbia Utilities Commission (Commission) pursuant to sections 56, and 58 to 61 of the *Utilities Commission Act* (the Act) seeking, among other things, the determination of just, reasonable and sufficient rates including:
 - final approval to increase rates by an average of 9.73 percent for each of F2012, F2013, and F2014, effective April 1, 2011, April 1, 2012, and April 1, 2013, respectively, subject only to the Commission's future review of an expenditure schedule regarding the F2014 expenditures on demand-side measures (DSM);
 - final approval to set the Deferral Account Rate Rider (DARR) at 2.5 percent effective April 1, 2011;
- B. BC Hydro also sought an order, on an interim and refundable basis, pending determination of the Application to, among other things: (i) increase rates by an average of 9.73 percent, and (ii) retain the DARR at 2.5 percent, effective April 1, 2011;
- C. On March 3, 2011, the Office of the Auditor General of British Columbia advised BC Hydro that it would undertake an audit of the effectiveness of BC Hydro's recovery of its deferral/regulatory accounts. The Auditor General's report was made public in October of 2011;
- D. The Commission established an Initial Regulatory Timetable for the Application by Order G-40-11 dated March 8, 2011;
- E. The Commission approved the interim rate relief, as requested, by Order G-41-11 dated March 14, 2011;
- F. At a Procedural Conference on March 25, 2011, BC Hydro sought, among other things, an extension of the Initial Regulatory Timetable on the basis that the Government would be reviewing the requested rate increases and that some form of downward adjustment would be made;

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- G. By Order G-61-11 dated March 28, 2011, the Commission suspended Order G-41-11, resulting in the suspension of the interim rate relief;
- H. On April 7, 2011, the Premier and the Minister of Energy and Mines on behalf of the Province of British Columbia, as the sole shareholder of BC Hydro, announced that the Provincial Government had appointed a three person panel (the Government Review Panel) to conduct a review of BC Hydro (Provincial Government Review) in order to provide recommendations and options for minimizing any rate increases;
- I. On April 21, 2011, the Commission issued Order G-72-11, directing, among other things, an across-the-board interim rate increase of 8.0 percent effective May 1, 2011, on a refundable basis, pending determination of the Application and suspended the Initial Regulatory Timetable, subject to further order;
- J. The Provincial Government Review report was made public on August 11, 2011. The Government Review Panel concluded that, among other things, the 9.73 percent rate increase initially requested by BC Hydro was too high. The report states “[t]he panel and BC Hydro executive have worked together to find areas where costs can be reduced in the short term and believe, based on this collaborative effort, BC Hydro can, with careful management, reduce the BC Hydro’s original rate increase for Fiscal 2012-2014 from the unacceptable 9.73% each year to increases which are approximately half that level.”;
- K. The Commission established a Revised Initial Regulatory Timetable by Order G-173-11 dated October 13, 2011;
- L. On November 24, 2011, BC Hydro filed its amendments to the Application (Amended Application) seeking, among other things:
- final approval to increase rates by an average of 8.0 percent for F2012, effective May 1, 2011, 3.91 percent for F2013, effective April 1, 2012, and 3.91 percent for F2014 effective April 1, 2013 subject only to the Commission’s future review of a schedule setting out the proposed F2014 expenditures on DSM, to be applied as set out in amended Appendix X of the Amended Application;
 - final approval to set the DARR at 2.5 percent effective April 1, 2011, and for the DARR to remain at 2.5 percent until the Commission orders a change to the DARR, no earlier than April 1, 2014;
- M. BC Hydro also sought an order, on an interim and refundable basis, pending determination of the Amended Application to, among other things: (i) increase rates by an average of 3.91 percent for F2013, effective April 1, 2012, and for F2014, effective April 1, 2013, and (ii) retain the DARR at 2.5 percent, effective April 1, 2012;
- N. The Commission determined that the Amended Application was to be reviewed by way of an Oral Public Hearing and set the Regulatory Timetable for its review by Order G-206-11 dated December 7, 2011;
- O. On February 15, 2012, by Order G-17-12, the Commission approved the applied-for across-the-board F2013 interim rate increase of 3.91 percent effective April 1, 2012, on a refundable basis, pending determination of the Amended Application. The Commission rejected the continuation of the DARR at 2.5 percent for F2013, effective April 1, 2012, and set it at 5.0 percent on an interim and refundable basis, pending determination of the Amended Application;
- P. On March 13, 2012, the Commission received an Application from BC Hydro requesting a Negotiated Settlement Process (NSP) for the purpose of resolving the Amended Application in its entirety (NSP Application). The Commission invited Interveners to make submissions on BC Hydro’s NSP Application by way of letter dated March 14, 2012;

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- Q. On March 30, 2012, by Order G-41-12, the Commission rejected BC Hydro's NSP Application, finding that the matter was better suited to an Oral Public Hearing process;
- R. On May 22, 2012, the Lieutenant Governor in Council, by Order in Council No. 314, issued Direction No. 3 to the Commission, pursuant to section 3 of the Act. Direction No. 3 requires the Commission to issue the final orders to BC Hydro as requested in the Amended Application except for certain adjustments specifically noted in Direction No. 3;
- S. Following receipt of Direction No. 3 the Commission received submissions from the Participants on the issue of a potential Procedural Conference and the further process for the review of the Amended Application;
- T. By Order G-69-12 dated May 31, 2012, the Commission adjourned the Oral Public Hearing scheduled to commence on June 18, 2012, and established a placeholder date for a potential Procedural Conference;
- U. On June 7, 2012, following review of all submissions, the Commission issued a letter informing Participants that no Procedural Conference would take place.

NOW THEREFORE for the reasons attached hereto as Appendix A, the Commission orders that:

1. Pursuant to Direction No. 3:

Rate Increases

- (i) The F2012 rate increase of 8.0 percent effective May 1, 2011, and the F2013 rate increase of 3.91 percent, effective April 1, 2012, all as set out in amended Appendix A to the Amended Application, are approved except for the Open Access Transmission Tariff (OATT).
- (ii) The F2014 rate increase, effective April 1, 2013, that is on average 1.44 percent higher than F2013 rate, subject only to a Commission order under section 44.2 of the Act respecting BC Hydro's F2014 expenditures on DSM, is approved except for the OATT.
- (iii) The F2012 OATT rates, effective April 1, 2011, and the F2013 OATT rates, effective April 1, 2012, as set out in Schedule A to this Order are approved.
- (iv) The F2014 OATT rates, effective April 1, 2013, as set out in Schedule A to this Order are approved, subject only to a Commission order under section 44.2 of the Act respecting BC Hydro's F2014 expenditures on DSM.

Deferral Account Rate Rider (DARR)

- (v) The DARR for F2012 at 2.5 percent is approved. The DARR for F2013 and F2014 is to be set at 5 percent. The DARR shall remain at 5 percent until the Commission orders a change.

Expenditures on Demand-Side Management (DSM)

- (vi) A change in the amortization period from 10 to 15 years effective April 1, 2011, for all past and future DSM expenditures included in the DSM regulatory account is approved.
- (vii) The DSM expenditure schedules for F2012 and F2013 set out in Table II-3-3 of Appendix II of the Amended Application are approved.

Rates of Depreciation

- (viii) The expected lives for depreciation of new plant components as set out in Schedule 2 of the Gannett Fleming report dated January 2011 in Appendix G to the Amended Application effective April 1, 2011, are approved.

Existing Deferral and Other Regulatory Accounts

- (ix) The continuation of the deferral of the differences between forecast and actual cost of energy arising from differences between forecast and actual domestic customer load through the Non-Heritage Deferral Account (NHDA) for F2012 to F2014 is approved.
- (x) The continuation of the deferral of the costs related to the development of the Site C project (Site C regulatory account) for F2012 to F2014 is approved.
- (xi) The continuation of the deferral of the difference between forecast and actual amortization of capital additions (Amortization of Capital Additions regulatory account) for F2012 to F2014 is approved.
- (xii) The continuation of the deferral of the differences between forecast and actual finance charges (Total Finance Charges regulatory account) for F2012 to F2014 is approved.
- (xiii) The continuation of the deferral of the net costs of the Home Purchase Option Plan (HPOP regulatory account) for F2012 to F2014 is approved.
- (xiv) The continuation of the deferral of the differences between forecast and actual non-current pension costs for F2012; the deferral of the differences between forecast and actual net interest expenses or income on the pension and other post employment benefits plan obligations and benefits in F2013 and F2014; the inclusion of the actual experienced gains or losses related to BC Hydro's pension and other post employment benefit plans in the regulatory account beginning in F2012; and the amortization of the closing F2011 balance in the regulatory account over a five-year period beginning in F2012 are approved (Non-Current Pension Cost regulatory account).
- (xv) The transfer of the F2011 closing balance in the GMS 3 regulatory account to the Heritage Deferral Account in F2012 is approved.
- (xvi) The amortization of the F2011 closing balance in the Capital Project Investigation Costs regulatory account (CPI Costs regulatory account) over 10 years commencing in F2012 is approved.

- (xvii) The deferral of the actual net operating costs, amortization of capital assets, finance charges and return on equity that BC Hydro will incur related to the Smart Meter & Infrastructure Program (SMI regulatory account) from F2012 to F2014 is approved.
- (xviii) BC Hydro is directed to close the Procurement Enhancement Initiative regulatory account. The closing F2012 balance may not be recovered in rates.
- (xix) The amortization of the March 31, 2011, closing balances in the Total Taxes regulatory account, the Total Finance Charges regulatory account and the Amortization of Capital Additions regulatory account in F2012 are approved.
- (xx) The closure of the Total Taxes regulatory account, once the credit balance in the account at the end of F2011 has been refunded to customers in F2012, is approved.

New Regulatory Accounts

- (xxi) The International Finance Reporting Standards (IFRS) Property, Plant & Equipment regulatory account to phase in the impact of the reduction in the amount of overhead that can be capitalized under IFRS is approved as applied for.
- (xxii) The IFRS Pension regulatory account to reflect the changes in pension accounting under IFRS is approved as applied for.
- (xxiii) The F12-F14 Rate Smoothing regulatory account is approved as follows: a recovery of \$69.7 million in F2012 and \$41.2 million in F2013 and the amortization of \$110.9 million in F2014.
- (xxiv) The Outsourcing Implementation Costs regulatory account as requested is denied. Costs are to be recovered in rates as follows: F2012 - \$16.3 million; F2013 - \$10.8 million; F2014 - \$3.6 million.

Interest Rates

- (xxv) Interest on the balances in the deferral and other regulatory accounts based on BC Hydro's weighted average cost of debt for its current fiscal year is approved effective April 1, 2011.

Rate of Return on Deemed Equity

- (xxvi) BC Hydro's allowed rate of return on deemed equity is set at 11.73 percent and 11.84 percent for F2013 and F2014 respectively.
- (xxvii) BC Hydro is directed to defer to the NHDA the amount that is determined by subtracting the amount in subparagraph (a) from the amount in subparagraph (b):
 - (a) The forecast return on deemed equity in F2014 calculated on the basis of the annual rate of return on deemed equity in F2014 of 11.84 percent;
 - (b) The forecast return on deemed equity in F2014 calculated on the basis of an annual rate of return on deemed equity in F2014 that is greater or less than 11.84 percent as a result of a Commission order arising from the generic cost of capital proceeding initiated by Commission Order G-20-12.

Operating Costs

(xxviii) BC Hydro's planned F2012 operating costs in the amount of \$898.2 million as referred to in line 13 of schedule 3.0 of amended Appendix A to the Amended Application are to be reduced by \$12 million.

Capital Expenditures and Additions

(xxix) Planned capital expenditures in regard to transmission substations in the amounts of \$258 million, \$442.9 million and \$362.4 million for F2012, F2013, and F2014, respectively, as referred to in line 5 of schedule 13.0 of amended Appendix A to the Amended Application are to be reduced by \$55 million in each of F2012, F2013, and F2014.

(xxx) Planned capital additions in regard to transmission substations in the amounts of \$209.3 million, \$204.5 million and \$402.3 million for F2012, F2013 and F2014, respectively, as referred to in line 19 of schedule 13.0 of amended Appendix A to the Amended Application are to be reduced by \$65 million in each of F2012, F2013, and F2014.

Cost of Energy

(xxxi) BC Hydro is directed to defer to the NHDA forecast increases in the cost of energy as follows: F2012 - \$65.9 million; F2013 - \$103.2 million; F2014 - \$49.8 million.

Determination of Specific Forecasts

(xxxii) The following specific forecasts of costs and revenues subject to deferral are approved:

(\$ million)	Schedule Reference	F2012	F2013	F2014
Heritage Deferral Account Heritage Payment Obligation	4.0 L70	408.7	404.5	373.7
Non-Heritage Deferral Account Non-Heritage COE Subject to Deferral Total Rate Revenue	4.0 L82 1.0 L22	743.9 (3,568.0)	852.3 (3,770.8)	1,053.6 (3,881.6)
Trade Income Deferral Account Trade Income	1.0 L17	142.0	113.0	113.0
Other Regulatory Accounts Non-Current PEB – Pension Storm Restoration Costs Total Finance Charges Amortization of Capital Additions	N/A N/A 1.0 L5 13.0 L70	17.7 4.5 570.0 22.8	13.7 4.5 611.3 80.2	13.8 4.5 662.0 134.5

**BRITISH COLUMBIA
UTILITIES COMMISSION**

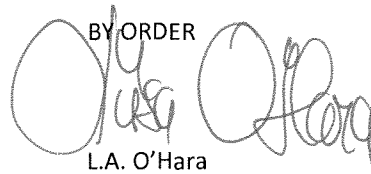
**ORDER
NUMBER** G-77-12

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2. The Procedural Conference will not take place.
3. Prior to filing its next Revenue Requirements Application (RRA) BC Hydro is directed to conduct a workshop with Commission staff and Interveners to discuss an approach that will allow for a transparent, efficient and effective review of the RRA and include a discussion on the appropriate length of the test period.
4. BC Hydro is directed to include in its next RRA:
 - a. an analysis of, and a proposal for, a formulaic method for clearing the net balance in the Deferral Accounts that considers the forecast changes to the balance and does not contain a maximum/minimum limit in a range which has already been surpassed;
 - b. its accounting practices and policies concerning Demand Side Management (DSM) expenditures;
 - c. a range of reasonable amortization periods, and the associated amortization amounts, to be applied to the following regulatory accounts: First Nations Settlement Costs, Home Purchase Option Plan (HPOP) and Rock Bay Remediation;
 - d. the appropriate amortization period of its Smart Metering and Infrastructure (SMI) Program assets in light of evidence regarding their anticipated useful lives;
 - e. an analysis as to whether the Trade Income Deferral Account (TIDA) should be treated as one of the Deferral Accounts. BC Hydro must also show what the rate relief would be in the absence of the TIDA being treated as one of the Deferral Accounts.
5. If BC Hydro proposes to defer any forecast cost of energy in the next RRA, BC Hydro must disclose in that application what the required rate relief would be in the absence of the deferral.
6. Applications for Participant Assistance Cost Awards should be submitted to the Commission within 30 days of the issuance of this Order in accordance with section 4 of Direction No. 3.
7. Subject to the Commission's determination of Participant Assistance Cost Awards, the BC Hydro F2012 to F2014 Revenue Requirements Application Proceeding is cancelled.

DATED at the City of Vancouver, in the Province of British Columbia, this 13th day of June 2012.

BY ORDER



L.A. O'Hara
Commissioner

Attachments

Service	Rate Schedule in Authority's Open Access Transmission Tariff	F2012 Rate	F2013 Rate	F2014 Rate
Network Integration Transmission Service	00	\$47.3 million/month	\$49.6 million/month	\$49.0 million/month
Long Term Firm Point to Point Transmission Service	01	\$51,205 / MW / year	\$53,471 / MW / year	\$52,313 / MW / year
Monthly Short Term Firm and Non Firm Point to Point Transmission Service	01	\$4,267.12 / MW / month	\$4,455.94 / MW / month	\$4,359.41 / MW / month
Weekly Short Term Firm and Non Firm Point to Point Transmission Service	01	\$984.72 / MW / week	\$1,028.29 / MW / week	\$1,006.02 / MW / week
Daily Short Term Firm and Non Firm Point to Point Transmission Service	01	\$140.29 / MW / hour	\$146.50 / MW / day	\$143.32 / MW / day
Hourly Short Term Firm and Non Firm Point to Point Transmission Service	01	\$5.85 / MW / hour	\$6.10 / MW / hour	\$5.97 / MW / hour
Scheduling, System Control and Dispatch Service Fee	03	\$0.140 / MWh	\$0.139 / MWh	\$0.139 / MW h

British Columbia Hydro and Power Authority
F2012 to F2014 Revenue Requirements Application

REASONS FOR DECISION

1.0 BACKGROUND

On May 22, 2012, the Lieutenant Governor in Council, by Order in Council No. 314, issued Direction No. 3 to the British Columbia Utilities Commission (the Commission), pursuant to section 3 of the *Utilities Commission Act* (the Act). Direction No. 3 requires the Commission to issue a comprehensive set of final orders to British Columbia Hydro and Power Authority (BC Hydro) regarding rates for the three year test period of F2012 to F2014, which commenced on April 1, 2011, and will conclude on March 31, 2014. These final orders are as requested in the Amended Revenue Requirements Application (Amended Application), except for certain adjustments specifically noted in Direction No. 3. The Commission must issue the orders regarding the specific adjustments within 30 days of the date Direction No. 3 comes into force. Furthermore, the Commission may not “reconsider, vary or rescind” the orders except on application by BC Hydro. Finally, Direction No. 3 also sets an upper limit for compensation for participant costs in this proceeding. BC Hydro is to pay the participants for preparation days not exceeding 30 days.

Direction No. 3 forms Attachment 1 to these Reasons.

This proceeding commenced on March 1, 2011, was suspended on April 21, 2011, by Order G-72-11, due to the announced rate review by the Government Review Panel, and was restarted on November 24, 2011. The critical steps of the review are documented in more detail in the Recitals to the Order accompanying these Reasons.

After receiving submissions for and against a necessity of a Procedural Conference to deal with “remaining business” of the Commission related to the Amended Application from some parties, the Commission Panel, by letter dated May 30, 2012, invited further submissions from all parties on the need for further process.(Exhibit A-34). By Order G-69-12 dated May 31, 2012, the Commission Panel adjourned the public hearing scheduled to commence on June 18, 2012, and established June 12, 2012, as the placeholder date for a possible Procedural Conference (Exhibit A-35). By letter dated June 7, 2012 the Commission advised the parties that the Commission had decided that the Procedural Conference would not take place and that the Commission’s Order and Reasons would follow (Exhibit A-36). These are the Reasons.

2.0 INTERVENER SUBMISSIONS

The Commission received submissions from the following parties:

- British Columbia Old Age Pensioners’ Organization *et al.* (BCOAPO), Exhibit C1-16;
- Canadian Office and Professional Employees Union Local 378 (COPE), Exhibits C2-22, C2-23;
- Commercial Energy Consumers Association of British Columbia (CEC), Exhibit C5-9;
- Ilse Leis, Exhibit C9-13;
- B.C. Sustainable Energy Association and the Sierra Club of British Columbia (BCSEA), Exhibits C10-20, C10-21;
- Energy Solutions for Vancouver Island Society (ESVI), Ludo Bertsch, Exhibit C16-11;
- Terry Vulcano, Exhibit C17-14;
- Association of Major Power Customers of British Columbia (AMPC), Exhibit C18-15;
- Alan Wait, Exhibit C23-5; and
- Vanport Sterilizers Inc. (Vanport), Exhibit C27-7.

Submissions in Support of a Procedural Conference or Other Further Process

COPE and BCSEA argued strongly in favour of the Commission holding a Procedural Conference. COPE submits “the complexity of the situation in which the Commission finds itself at this juncture calls, at a minimum, for a Procedural Conference for the proper canvassing of participants...”. Vanport also expressed support for a Procedural Conference. These three parties also identified the establishment of a formulaic mechanism for clearing the deferral accounts as a major unresolved issue.

BCOAPO noted that Direction No. 3 “is relatively comprehensive but not exhaustive.” BCOAPO “suggest a tightly controlled, minimal process to determine what, if anything, the Commission might order BC Hydro to provide in a compliance filing.”

ESVI submits that the process on how to deal with its four recommendations in regards to the Colwood Area Transmission Project is not covered by Direction No. 3 and suggests that the Commission make a ruling to clarify how this issue should be addressed.

Ilse Leis concurs with the outstanding issues raised by COPE but is silent on any further process. She is supported by Alan Wait and Terry Vulcano.

Submissions Against Any Further Process

The CEC sees Direction No. 3 as comprehensive and finds “little value or merit in further regulatory process given the position of the Government.”

AMPC submits that a Procedural Conference at this time will have little, if any value as it would only add to the regulatory cost burden.

3.0 BC HYDRO REPLY SUBMISSION

In its reply dated June 7, 2012, (Exhibit B-31), BC Hydro listed nine matters identified by Interveners and acknowledged that none were covered by Direction No. 3. However, BC Hydro submits that “no determination of any of the identified matters will have any effect on the rates in the test period” and provides its suggestions for the further process as follows:

- A formulaic method for clearing the net balance of Deferral Accounts is to be addressed in BC Hydro’s next revenue requirements application;
- The Colwood Area Transmission Project, which is currently in its Identification Phase, will be brought to the Commission in accordance with standard regulatory process, should BC Hydro decide to proceed;
- The cost of energy deferrals in the Non-Heritage Deferral Account (NHDA) is also to be addressed in BC Hydro’s next revenue requirements application, if applicable;
- A deferral account amortization plan that does not contain maximum or minimum limits on the Deferral Account Rate Rider (DARR) and that accounts for forecast changes in the balance of the Deferral Accounts is to be considered in BC Hydro’s next revenue requirements application;
- Accounting practices and policies concerning Demand Side Management (DSM) expenditures will be addressed in BC Hydro’s next revenue requirements application;
- The amortization of the Trade Income Deferral Account (TIDA), specifically whether the TIDA should be treated as one of the Deferral Accounts, is also to be addressed in BC Hydro’s next revenue requirements application;
- The amortization of three Regulatory Accounts, namely the First Nations Settlements, Home Purchase Option Plan (HPOP) and Rock Bay Remediation, is to be specifically addressed in BC Hydro’s next revenue requirements application;

- The appropriate amortization period of the Smart Metering and Infrastructure (SMI) Program is to be addressed in BC Hydro's next revenue requirements application; and
- The length of the next test period will also be addressed in BC Hydro's next revenue requirements application.

In summary, BC Hydro submits that because there were no Intervener procedural submissions with which it disagrees, the Procedural Conference is neither required nor justified.

4.0 COMMISSION DETERMINATION

Section 3 of the Act states that:

Commission subject to direction

- 3** (1) Subject to subsection (3), the Lieutenant Governor in Council, by regulation, may issue a direction to the commission with respect to the exercise of the powers and the performance of the duties of the commission, including, without limitation, a direction requiring the commission to exercise a power or perform a duty, or to refrain from doing either, as specified in the regulation.
- (2) The commission must comply with a direction issued under subsection (1), despite
- (a) any other provision of
 - (i) this Act, except subsection (3) of this section, or
 - (ii) the regulations,
 - (a.1) any provision of the *Clean Energy Act* or the regulations under that Act, or
 - (b) any previous decision of the commission.
- (3) The Lieutenant Governor in Council may not under subsection (1) specifically and expressly
- (a) declare an order or decision of the commission to be of no force or effect, or
 - (b) require the commission to rescind an order or a decision.

The Commission Panel has reviewed Direction No. 3 and finds that in light of section 3 of the Act, it must comply with the direction in its entirety.

The Commission Panel has also reviewed Intervener submissions on further process and the matters identified that are not covered by Direction No. 3 as well as BC Hydro's reply. The Panel agrees with BC Hydro that no determination of any of the identified matters will have any effect on the rates in the test period F2012 to F2014. Accordingly, the Panel accepts BC Hydro's proposed action plan and the Order accompanying these Reasons reflects that acceptance.

Since there are no remaining, outstanding procedural matters upon which the parties disagree, there is no need to invest additional time or expense in conducting a further Procedural Conference. The Procedural Conference will therefore not take place.

To ensure a smooth and conciliatory transition to the next revenue requirements proceeding, the Commission Panel directs BC Hydro to conduct a workshop with Commission staff and Interveners to discuss an approach that will allow for a transparent, efficient and effective review of the application.

In response to concerns raised regarding the record of the proceedings on the Application, the Panel wishes to assure the parties that the record will remain intact as a matter of course pursuant to the usual recordkeeping practices of the Commission.

For all the above reasons, and subject to the Commission's determination of Participant Assistance Cost Awards, the Commission's proceeding on the BC Hydro F2012 to F2014 Revenue Requirements Application is cancelled.

PROVINCE OF BRITISH COLUMBIA
ORDER OF THE LIEUTENANT GOVERNOR IN COUNCIL

Order in Council No. 314, Approved and Ordered MAY 22 2012



~~Lieutenant Governor~~
Administrator

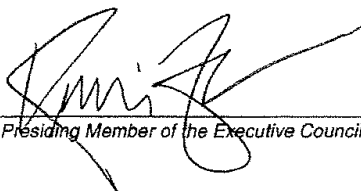
Executive Council Chambers, Victoria

Administrator

On the recommendation of the undersigned, the ~~Lieutenant Governor~~, by and with the advice and consent of the Executive Council, orders that the attached Direction No. 3 to the British Columbia Utilities Commission is made.

DEPOSITED
May 22, 2012
B.C. REG. 105/2012


Minister of Energy and Mines and
Minister Responsible for Housing


Presiding Member of the Executive Council

(This part is for administrative purposes only and is not part of the Order.)

Authority under which Order is made:

Act and section: *Utilities Commission Act, R.S.B.C. 1996, c. 473, s. 3*

Other:

May 1, 2012

R/418/2012/27

SCHEDULE

DIRECTION NO. 3 TO THE BRITISH COLUMBIA
UTILITIES COMMISSION

Definitions

1 In this direction:

“**Act**” means the *Utilities Commission Act*;

“**amortization of capital additions**” means the portion of the authority’s annual amortization expense that is subject to the amortization of capital additions regulatory account;

“**amortization of capital additions regulatory account**” means the regulatory account established under commission order G-16-09 and the direction in section 5.5.7 of the reasons that accompany that order;

“**application**” means the authority’s Amended Fiscal 2012 to Fiscal 2014 Revenue Requirements Application filed with the commission on November 24, 2011;

“**deemed equity**” has the same meaning as in Heritage Special Direction No. HC2 to the British Columbia Utilities Commission;

“**deferral account rate rider**” means the surcharge, expressed as a percentage, as set out in rate schedule 1901 of the authority;

“**F12-F14 rate smoothing account**” means the regulatory account that the commission has been requested, in the application, to approve;

“**F2012**” means the authority’s fiscal period commencing April 1, 2011 and ending March 31, 2012;

“**F2013**” means the authority’s fiscal period commencing April 1, 2012 and ending March 31, 2013;

“**F2014**” means the authority’s fiscal period commencing April 1, 2013 and ending March 31, 2014;

“**non-heritage cost of energy subject to deferral**” means the portion of the authority’s annual cost of energy that is subject to the non-heritage deferral account;

“**non-heritage deferral account**” means the regulatory account established under commission order G-96-04 and the direction in section 4.5 of the reasons that accompany that order;

“**OATT rates**” means the rates in schedules 00, 01 and 03 to the authority’s open access transmission tariff;

“**PEI regulatory account**” means the regulatory account established under commission order G-17-08;

“**preparation days**” has the same meaning as in Appendix A to commission order G-72-07;

“**total finance charges**” means the portion of the authority’s annual finance charges that is subject to the total finance charges regulatory account;

“total finance charges regulatory account” means the regulatory account established by the commission by order G-16-09 and the direction in section 5.5.2 of the reasons that accompany that order;

“total rate revenue” means the portion of the authority’s annual revenues that is subject to the non-heritage deferral account;

“trade income” has the same meaning as in Heritage Special Direction No. HC2 to the British Columbia Utilities Commission.

Application

- 2 This direction is issued to the commission under section 3 of the Act.

Orders

- 3 (1) Within 30 days of the date this direction comes into force, the commission must issue orders as follows:
- (a) for F2013 and F2014, the commission must set the deferral account rate rider at 5%;
 - (b) effective April 1, 2013, the commission must set the authority’s rates for F2014, except the OATT rates, at a level that is, on average, 1.44% higher than they are in F2013, subject to a commission order under section 44.2 of the Act in regard to the authority’s expenditures in F2014 on demand-side measures;
 - (c) the commission must set the OATT rates for F2012 and F2013 as shown in the appendix to this direction;
 - (d) the commission must set the OATT Rates for F2014 as shown in the appendix to this direction, subject to a commission order under section 44.2 of the Act in regard to the authority’s expenditures in F2014 on demand-side measures;
 - (e) the commission must order that the closing F2012 balance of the PEI regulatory account is not to be recovered in rates, and must order that the account be closed;
 - (f) the commission must allow the authority an annual rate of return on deemed equity of 11.73% and 11.84%, in regard to F2013 and F2014 respectively;
 - (g) the commission must order that BC Hydro’s planned F2012 operating costs referred to in line 13 of schedule 3.0 of amended Appendix A to the application may be recovered in rates, less \$12 million;
 - (h) the commission must order that the outsourcing implementation costs regulatory account, as requested in the application, may not be established, and must also order that the costs that would have been the subject of that account may be recovered in rates, as follows:
 - (i) F2012: \$16.3 million;
 - (ii) F2013: \$10.8 million;
 - (iii) F2014: \$3.6 million;

- (i) in setting rates for the authority in each of F2012, F2013 and F2014, the commission must accept the planned F2012 capital expenditures in regard to transmission substations referred to in line 5 of Schedule 13.0 of amended Appendix A to the application, less \$55 million;
- (j) in setting rates for the authority in each of F2012, F2013 and F2014, the commission must accept the planned F2012 capital additions in regard to transmission substations referred to in line 19 of Schedule 13.0 of amended Appendix A to the application, less \$65 million;
- (k) the commission must order, in regard to the F12-F14 rate smoothing account, a recovery to that account in F2012 of \$69.7 million, a recovery to that account in F2013 of \$41.2 million and the amortization from that account in F2014 of \$110.9 million;
- (l) the commission must order the authority to defer to the non-heritage deferral account the amount that is determined by subtracting the amount in subparagraph (i) from the amount in subparagraph (ii):
 - (i) the forecast return on deemed equity in F2014 calculated on the basis of the annual rate of return on deemed equity in F2014 of 11.84%;
 - (ii) the forecast return on deemed equity in F2014 calculated on the basis of an annual rate of return on deemed equity in F2014 that is greater or less than 11.84% as a result of a commission order arising from the generic cost of capital proceeding initiated by commission order G-20-12;
- (m) the commission must order that the authority defer to the non-heritage deferral account forecast increases in the cost of energy as follows:
 - (i) F2012: \$65.9 million;
 - (ii) F2013: \$103.2 million;
 - (iii) F2014: \$49.8 million;
- (n) the commission must approve the following forecasts:
 - (i) non-heritage cost of energy subject to deferral: \$743.9 million for F2012, \$852.3 million for F2013 and \$1053.6 million for F2014;
 - (ii) total rate revenue: \$3 568.0 million for F2012, \$3 770.8 million for F2013 and \$3881.6 million for F2014;
 - (iii) trade income: \$142.0 million for F2012, \$113.0 million for F2013 and \$113.0 million for F2014;
 - (iv) total finance charges: \$570.0 million for F2012, \$611.3 million for F2013 and \$662.0 million for F2014;
 - (v) amortization of capital additions: \$22.8 million for F2012, \$80.2 million for F2013 and \$134.5 million for F2014.
- (2) In addition to the orders referred to in subsection (1), the commission must also issue the final orders requested in section 1.7 of the application, except as they are inconsistent with the orders referred to in subsection (1).
- (3) The commission may not reconsider, vary or rescind the orders it issues under subsections (1) or (2), except on application by the authority.

Participant costs

- 4 (1) The commission, under section 118 of the Act, must order the authority to pay to applicable participants their costs for preparation days, not exceeding 30, that are incurred in respect of the proceeding arising from the application and before the date the orders referred to in section 3 of this direction are issued.
- (2) Subsection (1) applies to participants who apply to the commission for their costs in accordance with the applicable guidelines of the commission.

Rates

- 5 In setting the authority's rates for the balance of F2013 and F2014, the commission must exercise its powers and perform its duties under the Act consistently with the orders it issues under section 3 of this direction.

APPENDIX

Service	Rate Schedule in Authority's Open Access Transmission Tariff	F2012 Rate	F2013 Rate	F2014 Rate
Network Integration Transmission Service	00	\$47.3 million/month	\$49.6 million/month	\$49.0 million/month
Long-Term Firm Point to Point Transmission Service	01	\$51 205 / MW / Year	\$53 471 / MW / Year	\$52 313 / MW / Year
Monthly Short-Term Firm and Non-Firm Point to Point Transmission Service	01	\$4 267.12 / MW / month	\$4 455.94 / MW / month	\$4 359.41 / MW / month
Weekly Short-Term Firm and Non-Firm Point to Point Transmission Service	01	\$984.72 / MW / week	\$1 028.29 / MW / week	\$1 006.02 / MW / week
Daily Short-Term Firm and Non-Firm Point to Point Transmission Service	01	\$140.29 / MW / day	\$146.50 / MW / day	\$143.32 / MW / day
Hourly Short-Term Firm and Non-Firm Point to Point Transmission Service	01	\$5.85 / MW / hour	\$6.10 / MW / hour	\$5.97 / MW / hour
Scheduling, System Control and Dispatch Service Fee	03	\$0.140 / MWh	\$0.139 / MWh	\$0.139 / MWh