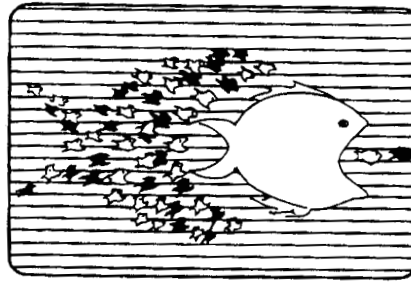


The
British Columbia
Public Interest
Advocacy Centre

815 - 815 West Hastings Street
Vancouver, B.C. V6C 1B4
Tel: (604) 687-3063 Fax: (604) 682-7896
email: bcpiac@bcpiac.com
http://www.bcpiac.com



Michael P. Doherty	687-3034
Richard J. Gathercole	687-3006
Sarah Khan	687-4134
Patricia MacDonald	687-3017
Netasha Edger (articled student)	687-3044
Barristers & Solicitors	

May 16, 2003

VIA E-MAIL AND FAX 604-623-4407

Ray Aldeguer
Senior Vice-President
Corporate Resources &
General Counsel
BC HYDRO AND POWER AUTHORITY
333 Dunsmuir Street
Vancouver, BC V6B 5R3

**Re: British Columbia Hydro and Power Authority Proposal Regarding Heritage
Contract for BC Hydro's Existing Generation Resources and Regarding Step Rates
and Transmission Access**

Enclosed are Information Requests for BCOAPO *et al.* in this matter.

Yours sincerely,

BC PUBLIC INTEREST ADVOCACY CENTRE

Richard J. Gathercole
Executive Director

RJG/ar

c: Robert J. Pellatt, Commission Secretary
British Columbia Utilities Commission

**BC HYDRO'S PROPOSAL RE: HERITAGE CONTRACT
BCUC ORDER G-23-03
BCOAPO *et al.* INFORMATION REQUESTS**

Executive Summary

Information Request 1

Reference: Proposal Volume 1, page (vi) – Objectives & Principles

“to maximize system value, those operating the system and those buying and selling power from and for the system should have, to the greatest extent possible, unfetter communications”.

Reference: Energy For Our Future: A Plan for BC, page 28 – Policy Action #8

“BC Hydro distribution will operate as a separate line of business from generation”

Reference: Proposal Volume 1, page 17 – Coordinated Operation

“BC Hydro proposes in this application to maintain the current coordinated relationships within BC Hydro as a means of optimizing system value”

Question:

- 1.1 Please explain what communications are required between BC Hydro's Distribution line of business and its other operations in order to maximize system value.
- 1.2 How is BC Hydro Distribution's responsibility for the acquisition of new supply to meet projected power needs reconciled with Powerex's role with respect to purchases?
- 1.3 Please explain what, if any protocols have or will be established between BC Hydro's Distribution and Generation lines of business to ensure that acquisition of new power resources is done in a fair and arms length manner.

Chapter 1

Information Request 2

Reference: Proposal Volume 1, page 3 – Constraints

“Independent power generation is to be encouraged (Energy Policy Plan Action #13)”

Question:

Please explain how the requirements of Energy Policy Plan Action #13 (i.e., The private sector will develop new electricity generation, with BC Hydro restricted to improvements at existing plants) influenced and/or constrained the preparation of the Heritage Contract Proposal.

Information Request 3

Reference: Proposal Volume 1, page 3 – Constraints

“System operation will be implemented and new system resources will be developed in an environmentally responsible way (Energy Policy Plan Action #9 and #20)”

Question:

3.1 Please explain how the requirements to implement system operation and develop system resources in an environmentally responsible way influenced and/or constrained the preparation of the Heritage Contract Proposal.

3.2 Please explain if the requirement of Energy Policy Plan Action #9 where by BC Hydro's distribution line of business is responsible for acquiring new supply on a least-cost basis influenced and/or constrained the development of the Heritage Contract Proposal.

Information Request 4

Reference: Proposal Volume 1, page 5 – Implementation

“the Heritage Contract proposal can be implemented relatively easily by appropriate changes to Special Direction No. 8 to the Commission and Special Directive No. 4 to BC Hydro”

Question:

4.1 Please provide copies of Special Direction No. 8 to the Commission and Special Directive No. 4 to BC Hydro.

4.2 Please indicate what changes BC Hydro considers would be required to implement the Heritage Contract.

Chapter 2

Information Request 5

Reference: Proposal Volume 1, page 7 – Heritage Deferral Account

“the proposal recommends establishing a deferral account designed to mitigate the volatility of BC Hydro’s revenue requirements that may arise from its payment obligations under the Heritage Contract or from the receipt of Trade Income”

Question:

- 5.1 The illustration of the Heritage Deferral Account set out in Appendix E only shows how the deferral account would work in situation where the available Heritage Resources vary from 49,000 GWh. Please expand the illustration so as to demonstrate how the proposed deferral account will address variations in Trade Income and the different circumstances under which Trade Income will arise.
- 5.2 What will be the basis for establishing the forecast energy available from Heritage Resources for purposes of setting rates? Will the forecast reflect current and expected hydraulic conditions for the rate year and, therefore, potentially vary from the 49,000 GWh figure?
- 5.3 Is the intent of the deferral account to only smooth out variations between forecast and actual Heritage Payment Obligations and Trade Income or is the purpose of the deferral account to also smooth out the rate impact of potentially wide variations in the year over year forecast Heritage Payment Obligations and Trade Income due to year to year changes in anticipated export market conditions and the availability of hydro resources?

Information Request 6

Reference: Proposal Volume 1, page 7 – Heritage Contract

“the full capacity of the Heritage Resources will be provided to BCH Distribution on a priority basis. BCH Generation will arrange for the marketing of any surplus capacity but at all times will ensure that priority is given to the needs of BCH Distribution”

Question:

- 6.1 Please explain the relative roles of BCH Generation and Powerex regarding the marketing of surplus capacity.

6.2 Will all arrangements entered into by BC Hydro for the marketing of surplus Heritage Resource capacity include provisions that for the interruption of the sale in the event the capacity is required to meet the needs of BC Distribution's customers?

Information Request 7

Reference: Proposal Volume 1, page 8 & 10 – Heritage Contract

“the contract will allow energy deliveries to be shaped, within the capability of the Heritage Resources, in response to BCH Distribution's changing needs” (p. 8)

“The energy delivery obligation under the Heritage Contract is set at a maximum of 49,000 GWh per year” (p. 8)

“BC Hydro determines how the generation system will be operated to satisfy domestic obligations and further determines how much surplus capacity is available for trade” (p. 10)

Question:

7.1 For each year of the Heritage Contract, please provide the most current forecast of the annual energy requirements and peak demand for the BCH Distribution's domestic customers (i.e., the Heritage Beneficiaries).

7.2 Given that BCH Distribution's total annual energy requirements are likely to exceed the energy available under the Heritage Contract and that the dispatch of Heritage Resources must occur on real time basis, please describe the process that will be used to establish:

- a) the megawatts of Heritage Resources used to meet BCH Distribution's energy requirements in each hour of the year,
- b) the quantity of energy in each hour that is deemed to be Heritage Energy - since in any given year the energy capability of the Heritage Resources can be greater or less than the 49,000 GWh of Heritage Energy, and
- c) describe how these decisions with respect to the hourly allocation will be reconciled with 49,000 GWh annual maximum for Heritage Energy.

7.3 Which line of business, Generation or Distribution, is responsible for determining how the Heritage Contract Resources will be used to satisfy domestic obligations? If it is the Generation business, how will this role be integrated with the responsibility BCH Distribution has (under Energy Policy Action #9) for deciding how to meet projected power need?

Information Request 8

Reference: Proposal Volume 1, page 8 – Heritage Contract

“The Heritage Contract will also allow coordination with other resources under BC Hydro’s control”

Question:

- 8.1 Please confirm that the “other resources under BC Hydro’s control” referred to here are the purchases from IPPs and the wholesale market as discussed on page 16 of the Proposal.
- 8.2 Does BC Hydro currently have long term (i.e., greater than one year) commitments to purchase electricity on the wholesale market?
- 8.3 Does BC Hydro interpret the Energy Plan as permitting any of its lines of business, apart from BCH Distribution, to enter into agreements to purchase power on the wholesale market on a long-term basis and please explain the rationale?

Information Request 9

Reference: Proposal Volume 1, page 8 – Heritage Contract

“The actual capacity, ancillary service and energy supply from the Heritage Resources will be provided on the basis of embedded costs”

Question:

- 9.1 Does the forecast of BCH Distribution’s annual energy and capacity requirements provided in response to question 7.1, include the ancillary services required to support the delivery of BCH Distribution’s anticipated electricity needs?
- 9.2 If not, what are the forecasted ancillary service requirements for BCH Distribution over the duration of the Heritage Contract?

Information Request 10

Reference: Proposal Volume 1, pages 9 & 40 – Cost of the Heritage Contract

“If less energy is taken the per unit “price” will be lower by virtue of the reduced cost of energy” (page 9)

“Because the Heritage Payment Obligation has a variable cost component – cost of energy – an assumed lower demand would have led to a lower unit price” (page 40)

Question:

Please clarify what is meant by “less energy taken”/“lower demand” and provide a schedule and supporting explanation to illustrate that the unit cost as well as the total cost will be less if less than the full Heritage Electricity is taken.

Information Request 11

Reference: Proposal Volume 1, pages 8 & 9 – Heritage Contract and PBR

“the Heritage Contract will establish a payment obligation based on actual costs”
(p. 8)

“The Heritage Contract proposal can accommodate “performance based rate-making (PBR) mechanisms” (p. 9)

Question:

Please outline how the proposal can accommodate PBR mechanisms when the payment obligation is to be calculated based on actual costs.

Information Request 12

Reference: Proposal Volume 1, page 9 – Heritage Payment Obligation

“revenues from the sale of surplus hydro and other miscellaneous revenues”

Question:

- 12.1 Why is there no reference to potential revenues from the sale of surplus energy or capacity from thermal Heritage Resources?
- 12.2 Are there, potentially, export market conditions under which the sale of power or energy from thermal Heritage Resources would be economically viable and contribute to Trade Income?
- 12.3 Please outline how “surplus hydro” is defined. Is it be determined as:
 - Any positive difference between 49,000 GWh and the actual hydro resources needed/used to meet BCH distribution needs, or
 - Any positive difference between the actual hydro resources available (whether greater or less than 49,000 GWh) and the actual hydro resources needed/used to meet BCH distribution needs, or
 - In some other manner?

Information Request 13

Reference: Proposal Volume 1, page 8 – Heritage Contract Energy

“The energy delivery obligation under the Heritage Contract is set at a maximum of 49,000 GWh”

Question:

13.1 Why is it considered a “maximum” as opposed to just a “set amount”?

13.2 In the event that the Heritage Resources produce more than 49,000 GWh in a given year, how will the excess be treated? Please specifically address the following:

- If the excess energy is required to meet BCH distribution needs – what priority does BCH distribution get over other potential customers; is it priced differently than Heritage Energy for rate setting purposes and is there a true up to actual costs as proposed for the Heritage Energy ?
- If the excess energy is used for export – is it transferred to Powerex at the same price as Heritage Energy made available for export and who receives the benefit of the revenues, i.e., are all resulting export sales considered towards Trade Income?

Information Request 14

Reference: Proposal Volume 1, page 10 – Trade Income Definition

“BC Hydro established Powerex to ... as well as buy electricity and gas for purposes of facilitating sales to others”

Question:

14.1 Does Powerex buy electricity and gas to meet BCH Distribution’s needs or is BCH Generation responsible for such purchases?

14.2 If Powerex is responsible, how is transfer price between Powerex and BCH Generation established in the case of electricity purchased to meet domestic needs and for gas purchased to generate electricity to meet domestic needs?

14.3 Does the transfer price directly impact on the level of Trade Income that goes to the benefit of the Heritage Contract Beneficiaries?

Information Request 15

Reference: Proposal Volume 1, page 10 and 26 – Trade Income Definition

“transactions between Powerex and BC Hydro are not based on actual costs. Rather, transactions are based on a market index” (page 10)

“Powerex pays BC Hydro for certain incremental costs associated with the use of Heritage Resources for trade, these being fuel costs and variable operating costs” (page 10)

Trade Income is calculated as Powerex revenue “Less the cost of energy from BC Hydro and third parties” and “Less incremental BC Hydro costs (fuel costs and variable operating costs)” (page 26)

Question:

Please provide separate explanations as to how the prices charged by BCH Generation to Powerex are determined (including the role of price indexes and incremental costs) for:

- Capacity and energy supplied from hydraulic generating facilities, and
- Capacity and energy supplied from thermal generating facilities.

Information Request 16

Reference: Proposal Volume 1, page 11 – Trade Income Definition

“Under the proposed definition, surplus hydro energy would be sold to Powerex at the index price and the profit would directly reduce the Heritage Payment Obligation and thus BC Hydro’s cost of energy. Thus Trade Income would reflect only the profit that Powerex could make relative to a market index paid to BC Hydro”

Question:

16.1 Please provide a schedule illustrating the impact of the change in the pricing used for energy sold to Powerex on:

- BCH Distribution’s cost of energy,
- Trade Income, and
- BCH Distribution’s revenue requirement overall.

16.2 Please explain how Powerex will decide whether or not to purchase surplus hydro and thermal energy from BC Hydro.

16.3 Will Powerex’s purchase electricity from BC Hydro for re-sale in the export market only if and when the expected sale price exceeds the cost of the BC Hydro purchase based on the market index? If the answer is yes, won’t this preclude Powerex considering sales of surplus Hydro that may be “profitable” from an overall BC Hydro perspective?

Information Request 17

Reference: Proposal Volume 1, page 11 – Treatment of Trading Losses

“BC Hydro will not pass on any trading losses to customers”

“BC Hydro’s shareholder will absorb the impact of extreme adverse outcomes”

Question:

Please describe the mechanism by which BC Hydro’s shareholder will absorb the impact of any Trade Income loss and how it ensures that none of the trading losses are passed on to customers.

Information Request 18

Reference: Proposal Volume 1, page 12 – Accommodation of PBR

“This can be adjusted to accommodate any possible PBR mechanisms in the future”

Question:

Please explain how BC Hydro foresees the treatment of the Heritage Deferral Account could be adjusted to accommodate PBR.

Information Request 19

Reference: Proposal Volume 1, page 13 – Alternatives Considered

“the direct application of the Hydro Quebec model to BC Hydro would impose greater costs on the Heritage Beneficiaries”

Question:

19.1 Please explain why the Hydro Quebec Heritage Contract model would impose greater costs on Heritage Beneficiaries.

19.2 Did BC Hydro consider any other “models” besides the Hydro Quebec model and the one proposed? If so, please briefly describe the alternatives considered and why they were rejected.

Information Request 20

Reference: Proposal Volume 1, page 14 – Actual Heritage Contract Obligation

“If at the end of a fiscal year the Heritage Payment Obligation was less than forecast ...”

Question:

20.1 Would the actual Heritage Payment Obligation be subject to review and approval by the BCUC?

20.2 If not, what process does BC Hydro envision using to validate the Heritage Payment Obligation?

20.3 If yes, when and how would BC Hydro anticipate these reviews being performed?

Chapter 3

Information Request 21

Reference: Proposal Volume 1, page 19 – Heritage Resources

“That table shows the capacity and energy capability of each resource (as documented in the BC Hydro report *Making the Connection*)”

Question:

21.1 Please provide a copy of the complete *Making the Connection* report referenced above.

21.2 Please provided copies of the two most recent editions of the report (or its equivalent) that pre-date the current report.

Information Request 22

Reference: Proposal Volume 1, page 20 and Table 1 – Heritage Resources

“While the theoretical capability of the thermal Heritage Resources is estimated at 6,289 GWh (excluding Fort Nelson), the expected generation under average water conditions is only about 2,400 GWh”

Question:

22.1 Please explain the basis for the 2,335 GWh value attributed to Burrard and Prince Rupert thermal stations in Table 1.

22.2 Please provide the calculations supporting the 6,289 GWh value including the capacity rating and outage factors used for each of Burrard and Prince Rupert.

22.3 Was the expected generation figure of 2,400 GWh calculated in reference to a level of domestic demand? If yes, what was it and how does the level of domestic demand used compare with both current demand levels and projections for the next 10 years?

22.4 Please explain why the quantity of energy available from the Heritage Contract was not determined based on 6,289 GWh of production from thermal Heritage Resources.

22.5 Given that BCH Distribution is not obligated to take all of the Heritage Electricity (Volume 1, page 13), what would be the implications for the Heritage Obligation

Payment and Trade Income of setting the Heritage Electricity at 52,890 GWh (i.e., 49,000 – 2,4000 + 6,290)?

Information Request 23

Reference: Proposal Volume 1, page 20 – Heritage Resources

“only a portion of the output from the Fort Nelson generating station directly benefits the Heritage Beneficiaries”

Question:

Please explain why this is the case and the basis for the 155 GWh attributed to Fort Nelson.

Information Request 24

Reference: Proposal Volume 1, page 26 – Trade Income

“less operating costs of Powerex”

Question:

What mechanisms and processes are in place to ensure that such costs are reasonable and justified?

Information Request 25

Reference: Proposal Volume 1, pages 25 and 26 – Trade Income

“Powerex acquires gas ... and then supplies it to BC Hydro ... for an indexed price” (page 25)

“Sales revenue is derived from Powerex’s sales of electricity, gas and ancillary services to BC Hydro and third parties” (page 26)

Question:

- 25.1 Does Powerex acquire gas for resale to any parties besides BC Hydro?
- 25.2 What is the “indexed price” used to value the sale of gas to BC Hydro?
- 25.3 What are the advantages of having Powerex acquire gas for resale to BC Hydro as opposed to BC Hydro directly acquiring the gas itself?
- 25.4 Does Powerex sell ancillary services (related to BC’s Wholesale Transmission Tariff) to any parties besides BC Hydro?

25.5 Does Powerex or BCH Generation supply ancillary services to BCH Distribution?

25.6 If the answer to 26.5 is Powerex, at what price are ancillary purchased from BCH Generation?

Information Request 26

Reference: Proposal Volume 1, page 26 and 28 – Trade Income and Allocation Issues

“less Powerex cost of transmission for trade” (page 26)

“the cost of Powerex’s transmission for trade would include an allocation of BC Hydro’s cost of purchases of point-to-point transmission within BC for export and some import transactions” (page 26)

“the Powerex portfolio ... includes tens of thousands of purchases and sales each year” (page 28)

Question:

26.1 How are the BC Hydro transmission costs associated with Powerex’s transactions determined? Are they calculated for each transaction based on the Wholesale Transmission Service tariffs?

26.2 Are there BC Hydro transmission costs associated with imports by Powerex to meet BCH Distribution’s domestic needs? Are such costs charged to Powerex or directly to BCH Distribution? How are the charges determined?

Information Request 27

Reference: Proposal Volume 1, page 28 – Allocation Issues

“BC Hydro proposes that imports to into BC Hydro’s control area be valued at the mid-Columbia index price plus the cost of transmission”

“Prior to the delivery day, BC Hydro would specify a threshold price below which it would be willing to import power for domestic supply. If the index price adjusted for transmission is below the threshold, imports would be allocated to domestic supply ... If the index price adjusted for transmission is above the threshold level, any import will be allocated to Powerex to enable additional sales at a later date”

Question:

27.1 Please provide a detailed description of the Mid-Columbia index price including how the value is established and how frequently the value changes.

- 27.2 If the index price is below the threshold established by BC Hydro, will BC Hydro (Distribution) be obligated to treat any and all import purchases made by Powerex as being used to meet domestic supply?
- 27.3 If the answer to 27.2 is yes – what happens in the event that deeming all such imports as domestic supply creates a surplus of hydro from Heritage Resources?
- 27.4 Will there be any provision for BC Hydro revise its “threshold price”? If not, why not? If yes, under what circumstances will revisions be allowed?
- 27.5 How does the allocation methodology work, if the index price exceeds the threshold price on the actual delivery day and there are insufficient allocated imports (when combined with available hydro, IPPs and thermal power) to meet actual domestic demand?
- 27.6 With respect to the decision making process to import to meet domestic requirements and the price paid to Powerex for such imports, are there any differences if the imports are required to meet the 49,000 GWh of Heritage Energy versus import required to meet domestic requirements in excess of the Heritage Energy?

Information Request 28

Reference: Proposal Volume 1, page 29 – Allocation Issues

“The same methodology would apply to gas-fired generation, with BC Hydro providing a threshold price for power generated from its thermal plants below which it would be willing to generate power for domestic use”

Question:

- 28.1 Please describe the role of the threshold price in determining:
- How much thermal generation will be produced on actual delivery day to meet domestic use?
 - Whether Powerex will purchase thermal generation from BC Hydro for purposes of making exports?
- 28.2 Please describe the relationship, if any, between this threshold price and the price BC Hydro receives from Powerex for thermal generation.
- 28.3 With respect to the decision to dispatch thermal generation to meet domestic requirements, are there any differences in the approach that will be taken by BC Hydro if the generation is required to meet the 49,000 GWh of Heritage Electricity versus generation required to meet domestic requirements in excess of the Heritage Electricity?

Information Request 29

Reference: Proposal Volume 1, page 29 – Allocation Issues

“Exports would be treated in a similar manner, with BC Hydro providing Powerex a threshold sell price below which it would not be willing to make surplus power sales. In the case of exports from the BC Hydro control area, the power would be valued at the Mid-Columbia index price”

Question:

- 29.1 Does the reference to “surplus power sales” refer only to surplus hydro or also surplus thermal resources?
- 29.2 Will price BC Hydro receives for power purchased by Powerex for export be the threshold price or the index price (less the cost of transmission)?
- 29.3 What happens in the event that, based on the quoted threshold price, Powerex does not purchase all of the surplus hydro available on the delivery day (i.e., the hydro resources available over and above those needed to meet domestic requirements)?
- 29.4 Will there be any provision for BC Hydro revise its “threshold price”? If not, why not? If yes, under what circumstances will revisions be allowed?

Information Request 30

Reference: Proposal Volume 1, pages 28-29 – Allocation Issues

Section 3.3.4 describes how each of the individual resources will be allocated however it remains unclear as to how the methodology will work on an integrated basis, given that the resources allocated to domestic supply on the delivery day must balance with the actual domestic needs.

Question:

Please provide some illustrative examples as to how the allocation methodology will work under different combinations of circumstances including:

- a) The import index price (adjusted for transmission) being higher or lower than the threshold specified by BC Hydro.
- b) Import prices being higher/lower than the cost of BC Hydro’s thermal resources.
- c) Hydraulic resources being more than sufficient or insufficient to meet domestic requirements.
- d) Export prices (adjusted for transmission) being higher/lower than the cost of producing power from BC Hydro’s thermal resources.
- e) Powerex foresees the opportunity to make high value export sale in the near future relative to current import prices

Information Request 31

Reference: Proposal Volume 1, page 32

“Quarterly trade activity reports should be filed with the Commission”

Question:

- 31.1 What information would be provided to the Commission in the quarterly trade reports?
- 31.2 Would the reports be available to the public?
- 31.3 What information is currently provided to the Commission and what information is publicly available?

Information Request 32

Reference: Proposal Volume 1, page 33 – Risk Management

“the Heritage Payment Obligation is proposed to be the actual cost to supply Heritage Electricity. This avoids the need to quantify and monetize in advanced the inherent financial and operational risks associated with supply Heritage Electricity for an extended period of time”

Question:

Does this approach reduce the financial and operational risks faced by BC Hydro relative to those of a utility whose rates are set on a prospective basis with no true-up to actual costs?

Information Request 33

Reference: Proposal Volume 1, page 34

“Variances from any of these forecasted sources (including domestic demand) will cause a variance in the demand on Heritage Energy”

Question:

- 33.1 Please provide BC Hydro’s forecast of domestic demand for the next 10 years (power and energy) and the corresponding demand on Heritage Energy in each year, consistent with the forecast presented in section 3.7.
- 33.2 Please indicate how any differences between domestic demand and the available Heritage Energy are expected to be resourced in each year of the forecast.

Information Request 34

Reference: Proposal Volume 1, page 40

“BC Hydro is also, and will continue to be, obliged to serve all its ratepayers, and deliver to them their actual electricity demand. The cost of the former (i.e., the Heritage Resources) will not coincide with the latter, but will be a component of it”

Question:

- 34.1 If the available Heritage Resources exceed 49,000 GWh and are required (on a forecast basis) to meet BCH Distribution's domestic requirement, how will the additional energy be costed for purposes of setting the revenue requirement and will the approach be any different than that used to cost the Heritage Energy?
- 34.2 Is only the cost of the Heritage Energy subject to true-up for actual costs or are the costs of all Heritage Resources used to meet domestic needs subject to a true up for actual costs?
- 34.3 What are the implications and potential impacts on the total revenue requirement associated with serving domestic customers (e.g., the Heritage Beneficiaries) of setting the Heritage Energy at 49,000 GWh as opposed to 48,000 or 50,000 GWh?
- 34.4 Given that the lowest cost resources are dispatched first to meet domestic load and any surplus generation is made available to Powerex to generate Trade Income, does setting the Heritage Energy at a different value have any impact on the total revenue requirement provided Trade Income is between \$ 0 and \$200 million? Please explain your answer.
- 34.5 To help illustrate the implications of choice of Heritage Energy value (i.e. 49,000 GWh), please provide:
 - a) BC Hydro's forecast of the total revenue requirement broken down by expense (including IPPs and imports to meet demands in excess of the Heritage Energy plus any offsets associated with forecast Trade Income) associated with supply the total electricity needs of the Heritage Beneficiaries over the period 2004/2005 to 2013/14 consistent with the material presented in Tables 2 and 3 (pages 41 and 42)
 - b) Schedules showing how Tables 2 and 3 in the Proposal would change and the response to (a) would change if the Heritage Energy were set at 50,000 GWh and explain the reasons for any variances.

Appendix C

Information Request 35

Reference: Proposal Volume 1, page 39 and Appendix C, paragraph 11.

“This Agreement is effective for a minimum of ten years, and thereafter until terminated by a government direction, with 4 year’s notice”

Question:

- 35.1 Why is there no provision for the Agreement to be terminated in the first ten years? Are there no circumstances that could occur under which this would be necessary?
- 35.2 Does BC Hydro consider the 4 year notice period to be binding on the implantation of future government policy directives that may require changes to the Heritage Contract?

Information Request 36

Reference: Proposal Volume 1, page 7 and Appendix C

“Each of the components is interdependent (i.e., the Heritage Contract, Trade Income and the Heritage Deferral Account), and changes to one will require changes to the others.”
(page 7)

Question:

- 36.1 Given BC Hydro’s view as to the interdependence of the Heritage Contract with the determination of Trade Income and the Heritage Deferral Account, why does the Agreement set out in Appendix C not contain schedules detailing the key elements of these related components?
- 36.2 Please provide examples of changes in either the proposed method for determining Trade Income or the workings of the Heritage Deferral Account that would require changes to the Heritage Contract.

Appendix F

Information Request 37

Reference: Proposal Volume 1, Appendix F, page F5

“BC Hydro proposes to include in the Heritage Payment Obligation an amount in respect of BC Hydro’s Generation Related Transmission Assets (GRTA) that was determined in a manner consistent with the Commission’s April23, 1998 Wholesale Transmission Service decision.”

Question:

Please provide the details regarding determination of the \$43.3 M, including the details regarding the "total transmission revenue requirement" and the "transmission revenue requirement" reflected in current rates.

Information Request 38

Reference: Proposal Volume 1, Appendix F, page F6

"Under average water conditions BC Hydro does not forecast any revenue from sales of surplus hydro energy"

Question:

- 38.1 Does this mean that there are no periods (or hours) during year where BC Hydro forecasts there will be surplus hydro available in excess of domestic needs?
- 38.2 If surplus hydro is expected to be available during certain hours of the forecast period, what was its assumed disposition for purposes of preparing Forecast Heritage Payment Obligation?

Information Request 39

Reference: Proposal Volume 1, Appendix F, page F7

"This after-income tax return is then "grossed-up" to a "pre-income tax basis" by applying the effective income tax rate of BC Gas"

Question:

Please provide the rationale for grossing up the allowed return on equity of 9.42% for taxes when determining return on equity for BC Hydro.

Information Request 40

Reference: Volume 2, Stepped Rates Chapter 6

BC Hydro states "It is not possible to identify the steps government need take in connection with stepped rates at this time." The discussion at the May 13th workshop suggested that BC Hydro believes that a stepped rate proposal should contain at least the following elements, assuming the shopping credit approach was not adopted:

- a) It should independent of the Heritage Contract.
- b) CBL's would be negotiated with each individual customer.
- c) The cut off between tier 1 and tier 2 rates would be the same for all customers.
- d) The tier 2 rate would be based on market rates

- e) The tier 2 rate would be established first followed by establishing the tier 1 rate please confirm if this is the case. If not please explain.

Information Request 41

An alternative to using market prices to establish tier 2 rate is to use long run incremental cost. Given that pursuant to the energy policy BC Hydro will not be building new generation facilities, how would BC Hydro calculate its long run incremental cost?