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June 5, 2003

Mr. Ray Aldeguer  
Senior Vice-President  
Corporate Resources & General Counsel.  
British Columbia Hydro and Power Authority  
333 Dunsmuir Street  
Vancouver, B.C. V6B 5R3

Dear Mr. Aldeguer:

Re: British Columbia Hydro and Power Authority ("B.C. Hydro")  
Proposal regarding a Heritage Contract, Stepped Rates and Access Principles

In reviewing B.C. Hydro's May 29, 2003 responses to Information Requests with respect to its Proposal regarding a Heritage Contract, Stepped Rates and Access Principles, Commission staff have identified that more information is required. Please provide answers to the questions as set out on the attached BCUC Staff Information Request No. 2, by Friday, June 20, 2003. Please also provide your response in electronic format for use by Commission staff. For ease of reference, these questions have been numbered to follow sequentially the questions of Commission Staff Information Request No.1.

This material and the response thereto, is to be distributed to registered intervenors.

Yours truly

J.W. Fraser  
Manager, Strategic Services

JWF/rt  
Attachment  
cc: Registered Intervenors

BRITISH COLUMBIA UTILITIES COMMISSION  
Staff Information Request No. 2

**British Columbia Hydro and Power Authority**  
**Proposal Regarding a Heritage Contract, Stepped Rates and Access Principles**

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**110.0 Heritage Contract**

- 110.1 Reference: “Energy for our Future: A Plan for BC”, page 26 and BC Hydro Proposal Volume 1, pp. 7-8

Policy Action #1 of the Energy Plan anticipates that the Heritage Contract will be “...similar to arrangements that have been adopted in Quebec”. The Quebec “heritage pool” provides Quebec customers a fixed rate for power up to a fixed quantity. That rate can be reduced but not increased.

BC Hydro has proposed a Heritage Contract between BC Hydro that defines the amount of electricity supplied by BCH Generation and the payment obligations of BCH distribution. That payment obligation (the Heritage Payment Obligation) is based on actual costs rather than a fixed price. The Heritage Contract Proposal also includes a method for determining the amount of Trade Income, and establishes a Heritage Deferral Account to mitigate the volatility of BC Hydro’s Revenue Requirements.

In order to better understand the rationale for the BC Hydro proposal, please indicate what would be necessary to implement a Fixed Price, Fixed Quantity contract similar to the Quebec model, and provide a comprehensive evaluation of the Fixed Price, Fixed Quantity model compared to the BC Hydro Proposal.

110.2 Response to BCUC Staff Information Request No. 6.2

BC Hydro’s response to BCUC Staff Information Request 6.2 states that to prepare a detailed calculation of a price would require:

- (a) a significant effort to either prepare a detailed monetization of all the risks involved in a fixed price contract and converting the result to an appropriate ROE risk premium; or
- (b) a determination of the dollar amount of a fixed price contract so the quantum of the contract reflects the existing ROE.

Please provide more information on the various risks that would need to be monetized and the degree of effort and type of analysis that would be required to monetize those

risks. Please also indicate the extent to which those risks are removed by BC Hydro's Heritage Contract proposal and the related deferral account.

110.3 Response to BCUC Staff Information Request No. 20.2

BC Hydro's response to BCUC Staff Information Request 20.2 states that direct application of the Quebec model to BC Hydro would result in a reduction in the Heritage Energy Supply obligation. It states that, in addition, BCH distribution would not receive the benefits of surplus sales made from heritage resources and would not have the supply flexibility to adapt to changing demands on its system.

Please explain in detail why there would be a reduction in the Heritage Energy Supply obligation, and why the benefits of surplus sales and of supply flexibility would be lost.

110.4 Response to BCUC Staff Information Request No. 20.3

BC Hydro's response to BCUC Staff Information Request 20.3 indicates that the cost impact to ratepayers between the BC Hydro proposal and the Fixed Price (Quebec) model would be an approximately \$163 million increase in the total supply cost.

Please explain in more detail how that \$163 million is estimated. Please indicate what the impact of lost benefits of surplus sales in high water conditions is, and if that impact is included in the cost of energy component of the table in BC Hydro's response. If it is not included, please confirm that the impact on ratepayers would be a potential increase in the difference between the total supply cost of the two options.