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October 6, 2006

Mr. Robert J. Pellatt  
Commission Secretary  
British Columbia Utilities Commission  
Sixth Floor – 900 Howe Street  
Vancouver, BC V6Z 2N3

Dear Mr. Pellatt:

**RE: British Columbia Hydro and Power Authority (BC Hydro)  
2004/05 and 2005/06 Revenue Requirements Application  
British Columbia Utilities Commission (BCUC) Order G-96-04  
Decision, October 29, 2004, Page 45, Directive No. 17 Page 218**

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Pursuant to BCUC Directive No. 17 of the October 29, 2004 Decision concerning BC Hydro's 2004/05 to 2005/06 Revenue Requirements Application, BC Hydro attaches its Fiscal 2007 First Quarter Deferral Account Report as at June 30, 2006. This contains information on the Heritage Payment Obligation Deferral Account (HDA), the Non-Heritage Deferral Account (NHDA), the Trade Income Deferral Account (TIDA) and the BCTC Transition Deferral Account (BCTC TDA).

BC Hydro notes that in its F07/F08 Revenue Requirements Application it has proposed that the cost of load variance (net of incremental revenue) be included in the transfers to the Heritage and Non-Heritage deferral accounts. For the purposes of preparing the deferral account report for 2007, BC Hydro has included this component in the transfer, consistent with its internal accounting practices. However, BC Hydro acknowledges that this change to the deferral accounts has not yet been approved by the BCUC. In the event that this proposal is either modified or not approved, BC Hydro will adjust the deferral accounts accordingly.

Yours sincerely,



Joanna Sofield  
Chief Regulatory Officer

Enclosures (5)



**BC Hydro**  
**Deferral Account Report**  
**June 30, 2006**

August 2006

# Table of Contents

Summary of Deferral Accounts.. .....	Schedule A
Deferral Account Rules .....	Schedule A-1
Summary of Deferral Account Transfers .....	Schedule A-2
Consolidated Statement of Operations .....	Schedule A-3
Domestic Cost of Energy.....	Schedule B
Transfers to the Heritage, Non Heritage, Trade Income and BCTC Transition Deferral Accounts .....	Schedules C to C-4
Intersegment Revenues .....	Schedule D
References to Commission Directives and Revenue Requirement Application .....	Appendix 1

**SUMMARY OF DEFERRAL ACCOUNTS**  
**For the Quarter Ended June 30, 2006**

	Reference Schedule	Heritage Deferral Account (HDA)	Non Heritage Deferral Account (NHDA)	Trade Income Deferral Account (TIDA)	BCTC Transition Deferral Account	Total
1		076000	076100	076200	076400	
2		076001	076101	076201	076401	
3		240.7	204.6	(213.3)	24.9	256.9
4	A-2	(40.5)	2.8	(113.3)	-	(151.0)
5		3.2	1.2	(4.0)	0.3	0.8
6		<u>203.4</u>	<u>208.6</u>	<u>(330.6)</u>	<u>25.2</u>	<u>106.7</u>

- 7
- 8 • The transfers to the HDA and NHDA are related to variances in energy costs,  
9 from the forecast used in establishing rates as set out in the F07/F08 Revenue Requirement Filing of  
10 May 2006.
- 11
- 12 • The transfers to the HDA are related to better water inflow conditions and  
13 lower market prices for energy. The decision to import energy instead of utilizing hydro  
14 generation is based on many factors, such as the forecast market price of energy in future periods relative  
15 to the current period, current reservoir levels and future demand requirements.
- 16
- 17 • The NHDA energy costs variances are largely due to lower purchases from dispatchable IPP's  
18 This is offset by the lower domestic sales volumes (incremental revenues) which are  
19 also transferred into the NHDA.
- 20
- 21 • The transfer to the TIDA relates to the higher than forecast Trade Income. This includes the offsets for the  
22 amounts included in the NHDA transfer noted above.
- 23
- 24
- 25

26 Notes:

- 27 1 Interest is calculated on the ending monthly balance (excluding the interest portion)  
28 in each deferral account. The interest rate used is BC Hydro's weighted cost of debt.

1

## Deferral Account Rules

2 The following “rules” are used by BC Hydro for providing clarity in determining the deferral  
3 account transfers. These rules are derived from BC Hydro’s interpretation of the evidence and  
4 testimony provided during the 2004 Revenue Requirement proceeding and in response to  
5 Commission directive No. 19 of the October 29, 2004 Decision. These have been amended by  
6 the proposals included in the F07/F08 Revenue Requirement Application specifically around the  
7 inclusion of the cost of load variances, net of incremental domestic revenues, to be transferred to  
8 the cost of energy deferral accounts.

### 9 Heritage Payment Obligation Deferral Account (HDA)

10 ***Commission Directive October 29, 2004 Page 41:***

#### 11 **Commission Findings**

12 ***The Commission Panel approves the HDA as proposed by BC Hydro, and approves BC***  
13 ***Hydro’s forecast of the cost components of the HPO for F2005 and F2006.***

14 Variances between the forecast and the actual cost for the following components of the Heritage  
15 Payment Obligation will flow through the HDA:

16 1. Cost of energy \*<sup>1</sup>.

17 This item is expanded in greater detail below to provide clarification on the methodology used  
18 to determine variances:

- 19 • The total Heritage Energy (including Skagit / Seattle City Light commitments) is limited to  
20 49000 GWh in terms of the Heritage contract. If the Heritage Energy including 100% of  
21 market electricity purchases exceeds the Heritage Energy limit, the excess purchases are  
22 transferred to Non-Heritage Energy in order to reduce the Heritage Energy volumes to  
23 the Heritage Contract limit.
- 24 • Cost of energy variances resulting from changes to compensation and mitigation costs,  
25 water rental remissions, or Skagit energy transportation contracts are eligible for deferral.  
26 These are price variances as they do not vary with volume.

27 2. Variable costs related to thermal generation\*<sup>1</sup>.

28 3. Significant unplanned major maintenance costs greater than \$1 million related to single event  
29 equipment or infrastructure failure or caused by weather related events\*<sup>1</sup>.

30 4. Significant unplanned major capital expenditures having an incremental annual impact on the  
31 Income Statement greater than \$1 million related to single event equipment or infrastructure  
32 failure or caused by weather related events\*<sup>1</sup>.

33 5. Amortization of unplanned deferred capital costs pursuant to Commission Order No. G-53-  
34 02\*<sup>1</sup>.

35 6. All net revenues from surplus hydro electricity sales\*<sup>2</sup>.

36 7. Skagit Valley Treaty revenues and ancillary services revenues\*<sup>2</sup>.

- 37 • An interest charge/credit\*<sup>3</sup> is to be calculated on the ending monthly balance (excluding the  
38 interest portion) in each deferral account. The interest rate used is BC Hydro’s weighted cost  
39 of debt during the period.

40 \*<sup>1</sup> Per Commission Directive October 29, 2004 Page 30, Section 4.4 & Page 41 (Commission Findings)

41 \*<sup>2</sup> Per Commission Directive October 29, 2004 Page 31, Section 4.4 & Page 41 (Commission Findings)

42 \*<sup>3</sup> Per Commission Directive October 29, 2004 Page 45, Section 4.11

1 **Non-Heritage Deferral Account (NHDA)**

2 *Commission Directive October 29, 2004 Page 41:*

3 **Commission Findings**

4 ***The Commission Panel approves all elements of the NHDA, except the distribution***  
 5 ***emergency restoration costs elements, item 4, because it can be forecast with some***  
 6 ***confidence, unlike unplanned major capital expenditures and unplanned major***  
 7 ***maintenance expenditures, and because of risk/reward considerations. Given the denial of***  
 8 ***item 4 of the NHDA, item 3 of the NHDA is to be as set forth in Final Argument. The***  
 9 ***Commission Panel approves BC Hydro's forecast of the NHDA non-HPO cost of energy for***  
 10 ***F2005 and F2006.***

11 Variances between the forecast and the actual cost for the following components of the Non-  
 12 Heritage Cost of Energy will flow through the NHDA:

- 13 1. Cost of energy - all non-HPO energy costs, net of incremental domestic revenues.\*<sup>1</sup>. This  
 14 item is expanded in greater detail below to provide clarification on the methodology used to  
 15 determine variances:
- 16 • Any variances relating to fixed price gas transportation contracts would flow through the  
 17 deferral accounts as they do not vary with volume;
  - 18 • Future Trade: when Powerex purchases energy for future trade the cost of the purchase  
 19 from the external party and the sale to BC Hydro of this energy is recorded in Powerex  
 20 and is included as part of Trade Income. The BC Hydro side of this entry is shown as part  
 21 of domestic energy costs (on consolidation, the Powerex revenue from BC Hydro and the  
 22 BCH energy costs from Powerex are eliminated). The difference between Actual and  
 23 Plan on the BC Hydro side relating to energy for future trade will flow through the Non-  
 24 Heritage Deferral Account. The Powerex side of the transaction is part of Trade Income  
 25 and flows through the Trade Income Deferral Account. Similar treatment is made when  
 26 the energy is returned to Powerex; and
  - 27 • Future Trade: when Powerex purchases energy for future trade, the Heritage Payment  
 28 Obligation (HPO) is charged with a notional water rental charge for the use of this energy.  
 29 The other side of this entry is shown as part of Non-Heritage energy. These entries are  
 30 eliminated on consolidation. The difference between the Actual and Plan notional water  
 31 rentals that is part of the HPO would flow through the Heritage Deferral Account. The  
 32 opposite variance relating to the Non-Heritage side of the notional water rental  
 33 transaction will flow through the Non-Heritage Deferral Account.
- 34 2. Significant unplanned major maintenance costs greater than \$1 million related to single event  
 35 equipment or infrastructure failure or caused by weather related events\*<sup>1</sup>.
- 36 3. Significant unplanned major capital expenditures having an incremental annual impact on the  
 37 Income Statement greater than \$1 million related to single event equipment or infrastructure  
 38 failure or caused by weather related events\*<sup>1</sup>.
- 39 4. Founding Partner Benefits and any CIS Credits under the ABS Contract\*<sup>1</sup>.
- 40 • An interest charge/credit\*<sup>2</sup> is to be calculated on the ending monthly balance (excluding the  
 41 interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost  
 42 of debt during the period.

43 \*<sup>1</sup> Per Commission Directive October 29, 2004 Page 37, Section 4.5 & Page 41 (Commission Findings) and  
 44 amended by proposal in the F07/F08 RRA.

45 \*<sup>2</sup> Per Commission Directive October 29, 2004 Page 45, Section 4.11

1 **Trade Income Deferral Account (TIDA)**

2 *Commission Directive October 29, 2004 Page 42, Section 4.6*

3 **Commission Findings**

4 ***The Commission Panel approves the TIDA as proposed by BC Hydro, and approves BC***  
5 ***Hydro's forecast of Trade Income for F2005 and F2006.***

- 6 • Any variance between the forecast Trade Income and the actual trade income\*<sup>1</sup> will flow  
7 through the TIDA except where Annual Trade Income is below \$Nil and above \$200 million.
- 8 • An interest charge/credit\*<sup>2</sup> is to be calculated on the ending monthly balance (excluding the  
9 interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost  
10 of debt during the period.

11 \*<sup>1</sup> Per Commission Directive October 29, 2004 Page 42, Section 4.6

12 \*<sup>2</sup> Per Commission Directive October 29, 2004 Page 45, Section 4.11

1 **BCTC Transition Deferral Account (BCTC TDA)**

2 *Commission Directive October 29, 2004 Page 42 & 43, Section 4.7*

3 **Commission Findings**

4 *The Commission Panel approves the BCTC TDA as proposed by BC Hydro, and approves*  
5 *BC Hydro's F2005 and F2006 forecast, subject to the adjustments required by this*  
6 *Decision, of the Asset Management / Maintenance Revenue Requirement and the BCTC*  
7 *Revenue Requirement for the purpose of the BCTC TDA.*

8 • The BCTC Transition Deferral Account relates to two variances:

9 • a) variances between BC Hydro's Asset Management/Maintenance Revenue  
10 Requirement forecast in BC Hydro's Revenue Requirement and BC Hydro's actual Asset  
11 Management/Maintenance charges from BCTC, and

12 • b) variances between BCTC's Revenue Requirement forecast charges to BC Hydro in  
13 BC Hydro's Revenue Requirement and the BCTC charges to BC Hydro for transmission  
14 services.

15 • An interest charge/credit\*<sup>1</sup> is to be calculated on the ending annual balance (excluding the  
16 interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost  
17 of debt during the period.

18 \*<sup>1</sup> Per Commission Directive October 29, 2004 Page 45, Section 4.11

**Summary of Deferral Account Transfers  
For the Quarter Ended June 30, 2006  
(\$ in millions)**

1		F2007	Reference
2		Actual YTD	Schedule
3			
4			
5			
6			
7			
8			
9	<b><u>Heritage Deferral Account</u></b>		
10	1) Cost of energy	(42.2)	C-1 (line 7)
11	2) Variable costs related to thermal generation.	-	
12	3) Significant unplanned major maintenance costs greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events	-	
13	4) Significant unplanned major capital expenditures having an incremental annual impact on the Income Statement greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events	-	
14	5) Amortization of unplanned deferred capital costs pursuant to Commission Order No. G-53-02.	-	
15	6) All net revenues from surplus hydro electricity sales.	-	
16	7) Skagit Valley Treaty revenues and ancillary services revenues.	1.7	C (line 11)
17	Transfer to Heritage Deferral Account for the three months ended June 30, 2006	<u>(40.5)</u>	A
18	<b><u>Non-Heritage Deferral Account</u></b>		
19	1) Cost of energy - all non-HPO energy costs	(5.1)	C (line 15-16)
20	2) Significant unplanned major maintenance costs greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events	-	
21	3) Significant unplanned major capital expenditures having an incremental annual impact on the Income Statement greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events.	-	
22	4) Founding Partner Benefits and any CIS Credits under the ABS Contract		
23	5) Incremental domestic revenues	7.9	C (line 19)
24	Transfer to Non Heritage Deferral Account for the three months ended June 30, 2006	<u>2.8</u>	A
25	<b><u>Trade Income Deferral Account</u></b>		
26	Transfer to Trade Income Deferral Account for the three months ended June 30, 2006	<u>(113.3)</u>	C-3; A
27	<b><u>BCTC Transition Deferral Account</u></b>		
28	1) BCTC Asset Management / Maintenance Fee	0.8	C-4
29	2) BCTC Wholesale Transmission Service / BCTC Revenue Forecast	5.1	C-4
30	Deferral amounts not recorded - (Note 1)	(5.9)	
31	Transfer for the three months ended June 30, 2006	<u>-</u>	A

**Notes:**

1 These amounts were not booked in the First Quarter. An adjustment to correct the transfer amount will be made in the 2nd Quarter.

**Consolidated Statement of Operations**  
**For the Quarter Ended June 30, 2006**  
**(\$ Millions)**

	A	B	C	Reference Schedule
	Actual	Plan	Variance	
<b>REVENUES</b>				
Domestic				
Residential	226	245	(19)	
Light industrial and commercial	244	256	(12)	
Large industrial	131	136	(6)	
Other energy sales	17	18	(1)	
Miscellaneous	2	14	(12)	
	<u>619</u>	<u>669</u>	<u>(50)</u>	
Intersegment revenues	5	6	(2)	D
	<u>624</u>	<u>676</u>	<u>(52)</u>	
<b>EXPENSES</b>				
Domestic energy costs	251	295	44	B
Operations expense	38	40	2	
Maintenance expense	65	65	(0)	
Administration expense	32	49	17	
Depreciation and amortization	121	122	0	
Taxes	36	38	2	
Finance charges	102	114	12	
	<u>646</u>	<u>723</u>	<u>77</u>	
<b>DOMESTIC INCOME (LOSS) BEFORE TRANSFER (TO)/FROM DEFERRAL ACCTS</b>	<b>(22)</b>	<b>(47)</b>	<b>25</b>	
<b>TRADE INCOME</b>	<b>115</b>	<b>2</b>	<b>113</b>	C-3
<b>TOTAL INCOME BEFORE TRANSFER (TO)/FROM DEFERRAL ACCOUNTS</b>	<b>93</b>	<b>(45)</b>	<b>139</b>	
Heritage Deferral Account transfers	(41)	-	(41)	
Non- Heritage Deferral Account transfers	3	-	3	A-2
Trade Income Deferral Account transfers	(113)	-	(113)	C-3
BCTC Transition Deferral Account transfers	-	-	-	C-4
Regulatory provision for future removal and site restoration costs	5	5	(0)	
Depreciation Study Regulatory Account	21	21	-	
First Nation Regulatory Asset	2	2	-	
Sicte C Regulatory Asset	1	5	(4)	
Revenue Deficiency Deferral Account Transfer	29	-	29	C-5
	<u>(93)</u>	<u>33</u>	<u>(126)</u>	
<b>TOTAL NET INCOME</b>	<b>-</b>	<b>(12)</b>	<b>12</b>	

1. The Statement of Operations is presented in a consistent format to the Statement of Operations presented in the 2007 Revenue Requirements Application.
2. The 'Plan' is the 2007 Plan per the Revenue Requirements Application, filed in May 2006.

**DOMESTIC COST OF ENERGY**  
**For the Quarter Ended June 30, 2006**

(\$ millions)	Actual	Plan	Variance	Reference Schedule
<b>Heritage Energy:</b>				
Water rentals	53	51	(1)	
Market electricity purchases	65	103	38	
Natural gas for thermal generation	6	6	0	
Domestic Transmission	4	4	0	
Other	1	1	(1)	
	<b>129</b>	<b>165</b>	<b>36</b>	C-1
<b>Non-Heritage Energy:</b>				
IPP's and long-term purchase commitments	99	105	6	
Market electricity purchases	-	-	-	
Non-Integrated Areas:				
NIA Fuel	3	2	(1)	
NIA IPP's	2	2	0	
Gas and Other Transportation	2	3	1	
Net purchases from Powerex (Trade Account)	-	-	-	
	<b>105</b>	<b>112</b>	<b>7</b>	C-1
BCTC NITS & External PTP	17	18	1	
<b>Total Domestic Cost of Energy</b>	<b>251</b>	<b>295</b>	<b>44</b>	A - 3
<b>(GW.h)</b>				
<b>Heritage Energy:</b>				
Water rentals	8,871	8,406	(465)	
Net sales to Powerex (Displaced Hydro)	(78)	181	259	
Market electricity purchases	2,262	2,881	619	
Natural gas for thermal generation	45	44	(1)	
Exchange net	245	31	(214)	
	<b>11,345</b>	<b>11,543</b>	<b>198</b>	
<b>Non-Heritage Energy:</b>				
IPP's and long-term purchase commitments	1,636	1,722	86	
Market electricity purchases	-	-	-	
Non-Integrated Areas:				
NIA Fuel	16	16	0	
NIA IPP's	9	10	1	
	<b>1,661</b>	<b>1,748</b>	<b>87</b>	
Total sources of supply	<b>13,006</b>	<b>13,291</b>	<b>285</b>	
Less : Line loss and system use	(809)	(983)	(174)	
	<b>12,197</b>	<b>12,308</b>	<b>111</b>	
<b>(\$/MW.h)</b>				
Water rentals	5.93	6.09	0.16	
Market electricity purchases	28.78	35.78	7.00	
Natural gas for thermal generation	131.11	141.71	10.60	
IPP's and long-term purchase commitments	60.21	60.95	0.74	
Non-Integrated Areas:				
NIA Fuel	154.90	122.86	(32.04)	
NIA IPP's	216.14	209.56	(6.57)	
Total weighted average cost	19.32	22.20	2.87	
The Cost of Energy Schedule is presented in a similar format to the Cost of Energy Schedule (Schedule A-9) presented as part of the F07/F08 Revenue Requirement Application.				

**TRANSFERS TO HERITAGE (HDA) AND NON-HERITAGE (NHDA) DEFERRAL ACCOUNTS**  
**For the Quarter Ended June 30, 2006**

1				
2				
3	<b>(\$millions)</b>			
4	<b>Transfer to HDA:</b>			
5	Total Heritage energy variance	(a)	(42.2)	C-1
6				
7	Heritage Energy Deferral		<u>(42.2)</u>	A-2
8				
9	Add: Variable Costs related to Thermal Generation		-	A-2
10	Add: Skagit Valley Treaty Revenues and			A-2
11	Ancillary Services Revenues		<u>1.7</u>	
12	Transfer to HDA		<u><u>(40.5)</u></u>	A; A-2
13				
14	<b>Transfer to NHDA:</b>			
15	Total Non-Heritage energy variance	(b)	\$ (5.1)	C-1
16				
17	Non - Heritage Energy Deferral		<u>\$ (5.1)</u>	A-2
18				
19	Incremental domestic revenues		<u>7.9</u>	A-2
20	Transfer to NHDA		<u><u>\$ 2.8</u></u>	A;A-2
21				

**TRANSFERS TO HERITAGE (HDA) AND NON-HERITAGE (NHDA) DEFERRAL ACCOUNTS**  
**For the Quarter Ended June 30, 2006**

**Reconciliation of Energy costs for Deferral Account Treatment**

(\$ millions)	Actual	Plan	Variance	Reference Schedule
<b>Heritage Energy:</b>				
Heritage Energy costs	\$ 129.1	\$ 165.3	\$ 36.2	B
Notional Water rental (Displaced Hydro) (Note 1)	(0.4)	0.9	1.3	
Mark to market (gain)/loss on energy derivatives and financial settlements (Note 2)	(4.6)	-	4.6	C-2
<b>Cost of energy portion of Heritage Payment Obligation</b>	<b>\$ 124.1</b>	<b>\$ 166.3</b>	<b>\$ 42.2</b>	(a) C
<b>Non-Heritage Energy:</b>				
Non-Heritage Energy costs	\$ 105.2	\$ 112.1	\$ 6.9	B
Net sales to Powerex - Future Use (Note 3)	(3.7)	8.4	12.1	D
Notional water rentals (Displaced Hydro) (Note 1)	0.4	(0.9)	(1.3)	
F/X loss(gain) on Pwx trade account (Note 4)	(5.1)	-	5.1	
Mark to market (gain)/loss on energy derivatives and financial settlements (Note 2)	17.6	-	(17.6)	C-2
<b>Cost of energy portion of Non-Heritage Payment Obligation</b>	<b>\$ 114.4</b>	<b>\$ 119.5</b>	<b>\$ 5.1</b>	(b) C

**Notes:**

1. Notional water rentals (Displaced Hydro) relates to water rentals associated with trade income. The notional water rental mechanism is described in the response to BCUC IR No. 1.2.36 dated January 23, 2004. The transactions relating to the notional water rental are eliminated on consolidation and there is no net impact on the combined HDA and NHDA as the transactions are mirrored within each account.

2. In order to mitigate some of the commodity risk on domestic energy costs, BC Hydro enters into various forward contracts with Powerex for the purchase of electricity and natural gas. Powerex can then choose to match these forward contracts with a third party or can take on the risk/benefits on their own. The transactions between BC Hydro and Powerex are eliminated on consolidation. With respect to the deferral accounts, any gain or loss on the derivative instruments on the Powerex side would flow through the Trade Income Deferral Account (TIDA) and the corresponding gain/loss on the BC Hydro side would flow through through the HDA and NHDA. While the gain/loss on these derivative instruments are not shown as part of energy costs on the financial statements due to GAAP reporting requirements, these gains/losses are reclassified for the calculation of deferral account transfers as they are part of managing the energy purchase costs.

The gain on energy derivatives related to Heritage energy totalled \$9.0 million for the three months ended June 30, 2006 with the corresponding loss shown as part of Trade Income. The loss on energy derivatives related to Non-Heritage energy totalled \$11.3 million with the corresponding gain shown as part of Trade income. The gain/loss on BC Hydro's side related to these energy derivatives is shown as part of intersegment revenues.

BC Hydro also enters into derivatives with third parties to manage foreign exchange exposure on the corresponding energy derivatives. These foreign exchange derivative transactions are made on a cash flow basis of the underlying or gas electricity derivatives which, by market convention, settle on the 20th or 25th of the following month. Gains and losses on these transactions are netted against Heritage and Non-Heritage Energy purchase costs as they are used to manage these energy costs and mitigate risk. On the consolidated income statement these gains/losses are recorded as part of other miscellaneous income to comply with GAAP reporting requirements. The loss for the three months ended June 30, 2006 was \$4.4 million related to Heritage Energy and a loss of \$6.3 million related to Non-Heritage Energy.

Transfer to HDA and NHDA continued

Schedule C-2

1

2 (\$millions)

3 **Summary:**

**Reference  
Schedule**

4

5 Gain / (Loss) on energy derivatives

	Heritage	Non- Heritage	Total
	6.4	(11.3)	(4.9)
	2.6		2.6
	9.0	(11.3)	(2.3)
	(4.4)	(6.3)	(10.7)
	<b>\$ 4.6</b>	<b>\$ (17.6)</b>	<b>\$ (13.0)</b>

6 Liquidity reserve

7 Gain / (Loss) on energy derivatives

8

9 Gain / (Loss) on Foreign exchange derivatives

10

11 Total Gain/(Loss) on Derivatives

12

13

14 3. These sale related to the return of energy bought by Powerex in prior periods to enable future sales.

15 These revenues are eliminated against trade cost of energy on consolidation. The transactions between

16 BC Hydro and Powerex has no net impact on the combined NHDA and the TIDA.

17

18 4. This relates to the foreign exchange gain on the Trade Account payable to Powerex. Powerex would have  
19 a corresponding loss on their receivable and this loss would be part of Trade Income. Foreign exchange gains/losses

20 arise as the Trade Account is recorded in \$US. The gain/loss on the BC Hydro side is eliminated against the

21 loss/gain on the Powerex side of consolidation within the finance charge component. As the mirror entry for

22 Trade Income relating to F/X on the Trade Account is recorded on the Non-Heritage energy side,

23 there is no net impact on the combined NHDA and TIDA due to these transactions.

C-1 (Note 2)

C-1 (Note 2)

Schedule C-3

			Reference Schedule
1	<b>Transfer to Trade Income Deferral Account</b>		
2	<b>For the Quarter Ended June 30, 2006</b>		
3	<b>(\$ in millions)</b>		
4			
5			
6			
7			
8	Actual Trade Income	115	A-3
9	Excess over Cap for deferral account transfer	-	
10		<u>115</u>	
11	Less: Plan Trade Income	2	
12	Transfer to Trade Income Deferral Account	<u><u>113</u></u>	A; A-3

**Transfer to BCTC Transition Deferral Account**  
**For the Quarter Ended June 30, 2006**  
(\$ in millions)

1  
2  
3  
4  
5  
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	F2007 Actual	F2007 Plan	Variance	Reference Schedule
<u>BCTC Asset Management Fee (Note 1)</u>				
Transmission Assets	22.6	21.8	0.8	
Generation Related Transmission Assets	1.4	1.4	-	
Substation Distribution Assets	2.9	2.9	-	
	26.9	26.1	0.8	
<u>BCTC Wholesale Transmission Service / BCTC Revenue Forecast (Note 2)</u>				
BCTC Network Integrated Transmission Service (NITS)	14.4	13.6	0.8	
BCTC Point to Point (PTP) Expenses	7.2	2.9	4.3	
Ancillary Services Expenses and other	(2.1)	(2.1)	-	
	19.5	14.4	5.1	
Total (Note 3)	46.4	40.5	5.9	A; A-2; A-3

**Notes:**

1. Per BC Hydro F07/F08 Revenue Requirements Application, page 2-23, lines 9-11
2. Per BC Hydro F07/F08 Revenue Requirements Application, page 2-23, Table 2-7.
3. These amounts were not booked in the First Quarter as a transfer to the BCTC Transition Deferral Account.  
An adjustment to correct the transfer amount will be made in the 2nd Quarter.

**INTERSEGMENT REVENUES**  
**For the Quarter Ended June 30, 2006**

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>Reference Schedule</u>
1				
2				
3				
4				
5				
6				
7	(3.7)	(8.4)	4.7	C-1
8				
9	5.8	7.8	(2.0)	
10				
11	3.6	5.7	(2.1)	
12				
13	1.1	1.0	0.1	
14				
15	(2.3)	-	(2.3)	
16				
17	<b>4.6</b>	<b>6.1</b>	<b>(1.5)</b>	A - 3
18				

**Notes:**

1. These sales in the Plan relate to a return of energy bought by Powerex in prior periods to enable future sale. These revenues are eliminated against trade cost of energy on consolidation.
2. These transmission revenues relate to an allocation of BC Hydro's cost of purchases of point-to-point transmission within BC for export and some import transactions. These revenues are eliminated against trade cost of energy on consolidation.
3. These transmission revenues relate to an allocation of BC Hydro's cost of purchases of point-to-point transmission relating to BC Hydro's Skagit Valley Treaty commitment, Canadian Entitlement Agreement (BCTC OATT Schedule 02) and Scheduling, System Control & Dispatch services (BCTC OATT Schedule 03). These revenues are eliminated against domestic cost of energy on consolidation.
4. These revenues relate to an allocation of corporate costs to Powerex and are eliminated against trade income on consolidation.
5. This relates to a mark to market gains on energy derivatives with Powerex. This revenue is eliminated against trade income on consolidation.

References to Commission Directives and Revenue Requirement Application

Reference:	Wording in Document:
<p>Commission Directive October 29, 2004 Page 30-31, Section 4.4</p>	<p>4.4 Heritage Payment Obligation Deferral Account</p> <p>The cost elements for the HPO set forth in BC Hydro’s Final Argument are itemized as follows:</p> <ol style="list-style-type: none"> <li>1. cost of energy – all variances except those arising from changes in customer load (part of (a)(i)); (Note 1).</li> <li>2. cost of energy – variable costs related to thermal generation. (part of (a)(ii));</li> <li>3. significant unplanned major maintenance costs greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events (part of (a)(ii));</li> <li>4. significant unplanned major capital expenditures having an incremental annual impact on the Income Statement greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events (part of (a)(iii));</li> <li>5. amortization of unplanned deferred capital costs pursuant to Commission Order No. G-53-02 (part of (a)(iv));</li> <li>6. all net revenues from surplus hydro electricity sales (all revenues in (b)(iii)); and</li> <li>7. Skagit Valley Treaty revenues (all revenues in (b)(i)) and ancillary services revenues (all revenues in (b)(ii)).</li> </ol>
<p>Commission Directive October 29, 2004 Page 37, Section 4.5</p>	<p>4.5 Non-Heritage Deferral Account</p> <p>BC Hydro’s Non-Heritage Deferral Account proposal, as set forth in BC Hydro Argument and amended during the oral phase of argument (T22: 4161), is set forth below:</p> <ol style="list-style-type: none"> <li>1. cost of energy – all variances in non-HPO energy costs except those arising from changes in customer load; (Note1).</li> <li>2. significant unplanned major maintenance costs greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events;</li> <li>3. significant unplanned major capital expenditures having an incremental annual impact on the Income Statement greater than \$1 million related to single event equipment or infrastructure failure;</li> <li>4. distribution emergency restoration costs – all variances in emergency restoration expenditures; and</li> <li>5. all Founding Partner Benefits and CIS Credits under the ABS Contract.</li> </ol>
<p>Per Commission Decision October 29, 2004, Page 38, Section 4.5.1.1</p>	<p>BC Hydro proposes that load variances be valued at the actual average cost of the highest priced resource option used to serve the load when the load variance is positive, that is, when actuals are higher than forecast. When actuals are lower than forecast, BC Hydro proposes that load variances be valued at forecast costs.</p> <p>When actuals are less than forecast, BC Hydro will not be purchasing power so BC Hydro proposes to use the average of the forecast of the highest resource option. When actuals are greater than forecast, BC Hydro will be purchasing power to meet the variance so BC Hydro proposes to use the average of the actual highest resource option purchases. (Note1).</p>

## Appendix 1

### References to Commission Directives and Revenue Requirement Application

<p>Commission Directive October 29, 2004 Page 41</p>	<p><b>Commission Findings</b>  The Commission Panel approves the HDA as proposed by BC Hydro, and approves BC Hydro's forecast of the cost components of the HPO for F2005 and F2006.</p> <p>The Commission Panel approves all elements of the NHDA, except the distribution emergency restoration costs elements, item 4, because it can be forecast with some confidence, unlike unplanned major capital expenditures and unplanned major maintenance expenditures, and because of risk/reward considerations. Given the denial of item 4 of the NHDA, item 3 of the NHDA is to be as set forth in Final Argument. The Commission Panel approves BC Hydro's forecast of the NHDA non-HPO cost of energy for F2005 and F2006.</p>
<p>Commission Directive October 29, 2004 Page 42, Section 4.6</p>	<p>BC Hydro proposes to record variances between BC Hydro's forecast Trade Income and actual Trade Income, as defined in HC2, in the TIDA and submits that its TIDA proposal is consistent with the requirements of subsection 7(a)(ii) of HC2 (BC Hydro Argument p. 76).</p> <p><b>Commission Findings</b>  The Commission Panel approves the TIDA as proposed by BC Hydro, and approves BC Hydro's forecast of Trade Income for F2005 and F2006.</p>
<p>Commission Directive October 29, 2004 Page 42 &amp; 43, Section 4.7</p>	<p>BC Hydro applies under section 7(b) of HC2 for a deferral account for two elements of the F2006 Transmission Revenue Requirement as set out in Exhibit B1-108. The two elements are: (1) BC Hydro Asset Management/ Maintenance Revenue Requirement forecast at \$116.7 million, and (2) BCTC Revenue Requirement forecast at \$74 million. The Commission Panel accepts that any variances from such amounts would only arise as a result of the Commission's decision on BCTC's F2006 revenue requirement application, and would be beyond BC Hydro's control (BC Hydro Argument, p. 78).</p> <p><b>Commission Findings</b>  The Commission Panel approves the BCTC TDA as proposed by BC Hydro, and approves BC Hydro's F2005 and F2006 forecast, subject to the adjustments required by this Decision, of the Asset Management/ Maintenance Revenue Requirement and the BCTC Revenue Requirement for the purpose of the BCTC TDA.</p>
<p>Commission Directive October 29, 2004 Page 45, Section 4.11</p>	<p>The Commission Panel approves BC Hydro's proposal that annually the average balance in each deferral account attract an interest charge or credit equivalent to BC Hydro's weighted cost of debt during the same period.</p>

**Note 1:** BC Hydro has proposed in the F07/F08 Revenue Requirement Application that cost of load variances, net of incremental domestic revenues, be transferred to the cost of energy deferral accounts.