BC hydro

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June 27, 2005

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 to 2005/06 Revenue Requirements Application
British Columbia Utilities Commission Decision – October 29, 2004
Directive No. 17 (page 45) Filing on Deferral Accounts
(Fiscal 2005 Year End Quarter Report)

Pursuant to Commission Directive No. 17 BC Hydro encloses its Fiscal 2005 Year End report on the Heritage Payment Obligation Deferral Account, the Non-Heritage Deferral Account and the Trade Income Deferral Account.

BC Hydro proposes that the prudency review and the clearing of the deferral accounts be discussed as part of BC Hydro's Fiscal 2007 Revenue Requirement Application.

Yours sincerely,

Tony Morris
Acting Chief Regulatory Officer

Enclosure (1)

BC Hydro

Deferral Account Report

March 31, 2005

June 2005

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SUMMARY OF DEFERRAL ACCOUNTS
For the year ended March 31, 2005

	Reference Schedule	Heritage Deferral Account (HDA)	Non-Heritage Deferral Account (NHDA)	Trade Income Deferral Account (TIDA)	Total
Balance as of April 1, 2004		-	-	-	-
Transfers for the year ended March 31, 2005	C, C-2	130.9	127.9	(110.5)	148.3
Interest on deferral accounts *(Note 1)*		6.9	3.4	(4.0)	6.3
		137.8	131.3	(114.5)	154.6
General ledger (G/L) account numbers for Deferral Accounts *(Note 2)*		076000	076100	076200	
G/L account numbers for interest on Deferral Accounts *(Note 2)*		076001	076101	076201	

- The transfers to the HDA and NHDA relate to variances in energy costs, not related to changes in load, from the forecast used in establishing rates (See Schedule C). These energy cost variances are largely due to higher than planned market prices for energy purchases and to the greater use of energy purchases in place of planned hydro generation. Hydro generation was reduced and energy purchases increased by approximately 3,379 GW.h due to lower water inflows and to greater market opportunities for economic purchases. The decision to import energy instead of utilizing hydro generation is based on many factors, such as the forecast market price of energy in future periods relative to the current period, current reservoir levels and future demand requirements.

- The transfer to the TIDA relates to the higher than Plan Trade Income primarily a result of the settlement received from Alcan Inc. (See Schedule C-2). The proceeds of this settlement are shown as part of Trade Income.

Notes:

1. The interest charge/credit is shown as part of finance charges on the Statement of Operations (Schedule A - 2). Interest is calculated on the ending months balance (excluding the interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost of debt.

2. In compliance with Commission Directive No.19 of the October 29, 2004 Revenue Requirements Decision, BC Hydro is providing the G/L accounts from its Code of Accounts used to track the deferral account balances. The G/L accounts ending in 00 above refer to the deferral account balances before interest and the G/L accounts ending in 01 above refer to the interest portion on the deferral accounts. The G/L accounts are Balance Sheet item 18.

Deferral Account Rules

The following "rules" are used by BC Hydro for providing clarity in determining the deferral account transfers. These rules are derived from BC Hydro's interpretation of the evidence and testimony provided during the 2004 Revenue Requirement proceeding and in response to Commission directive No. 19 of the October 29, 2004 Decision.

Heritage Payment Obligation Deferral Account (HDA)

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

1. Cost of energy, except those arising from changes in customer load. This item is expanded in greater detail below to provide clarification on the methodology used to determine variances:

    - Market electricity purchases are treated as the dispatchable resource;
    - If no market purchases are planned or made, the next dispatchable resource is assumed to be generation from the Burrard facility;
    - If generation volumes are lower than Plan, the Load Variance is calculated using the Plan YTD average market purchase price of electricity;
    - If generation volumes are higher than Plan, the Load Variance is calculated using the Actual YTD average market purchase price of electricity (netted for any gains/losses on energy derivatives and financial instruments used to manage energy costs); and
    - Cost of energy variances resulting from changes to compensation and mitigation costs, water rental remissions, or Skagit energy transportation contracts are eligible for deferral. These are price variances as they do not vary with volume.

2. Variable costs related to thermal generation.

3. Significant unplanned major maintenance costs greater than $1 million related to single event equipment or infrastructure failure or caused by weather related events.

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.

5. Amortization of unplanned deferred capital costs pursuant to Commission Order No. G-53-02.

6. All net revenues from surplus hydro electricity sales.

7. Skagit Valley Treaty revenues and ancillary services revenues.

- An interest charge/credit is to be calculated on the ending monthly balance (excluding the interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost of debt during the period.

Non-Heritage Deferral Account (NHDA)

Variances between the forecast and the actual cost for the following components of the Non-Heritage Payment Obligation will flow through the NHDA:

1. Cost of energy - all non-Heritage Payment Obligation (HPO) energy costs except those arising from changes in customer load. This item is expanded in greater detail below to provide clarification on the methodology used to determine variances:

    - If IPP and Non-Integrated supply volumes are lower than Plan, the Load Variance is calculated using the Plan average unit purchase price for IPP and Non-Integrated supply. For Non-Integrated Supply, the fuel costs are treated as the next dispatchable resource;

    - If supply volumes are higher than Plan, the Load Variance is calculated using the weighted average unit prices of Actual IPP and Non-Integrated energy (i.e. the variances related to IPP and Non-Integrated energy are calculated separately). The weighted average unit price would include any gains/losses on energy derivatives and financial instruments used to manage energy costs;

    - Any variances relating to fixed price gas transportation contracts would flow through the deferral accounts as they do not vary with volume;

    - Future Trade: when Powerex purchases energy for future trade the cost of the purchase from the external party and the sale to BC Hydro of this energy is recorded in Powerex and is included as part of Trade Income. The BC Hydro side of this entry is shown as part of domestic energy costs (on consolidation, the Powerex revenue from BC Hydro and the BC Hydro energy costs from Powerex are eliminated). The difference between Actual and Plan on the BC Hydro side relating to energy for future trade will flow through the Non-Heritage Deferral Account. The Powerex side of the transaction is part of Trade Income and flows through the Trade Income Deferral Account. Similar treatment is made when the energy is returned to Powerex; and

    - Future Trade: when Powerex purchases energy for future trade, the HPO is charged with a notional water rental charge for the use of this energy. The other side of this entry is shown as part of Non-Heritage energy. These entries are eliminated on consolidation. The difference between the Actual and Plan notional water rentals that is part of the HPO would flow through the Heritage Deferral Account. The opposite variance relating to the Non-Heritage side of the notional water rental transaction will flow through the Non-Heritage Deferral Account.

2. Significant unplanned major maintenance costs greater than $1 million related to single event equipment or infrastructure failure.

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.

4. Founding Partner Benefits and any Customer Information System (CIS) Credits under the ABS Contract.

- An interest charge/credit is to be calculated on the ending monthly balance (excluding the interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost of debt during the period.

Trade Income Deferral Account (TIDA)

- Any variance between the forecast Trade Income and the actual trade income will flow through the TIDA except where Annual Trade Income is below $Nil and above $200 million.

- An interest charge/credit is to be calculated on the ending monthly balance (excluding the interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost of debt during the period.

Consolidated Statement of Operations
For the year ended March 31, 2005
($ Millions)

	A	B	C	
	Actual	**Plan**	**Variance**	**Reference Schedule**
REVENUES				
Domestic				
Residential	1,016	1,018	(2)	
Light industrial and commercial	967	948	19	
Large industrial	573	526	47	
Other energy sales	88	89	(1)	
Miscellaneous	60	61	(1)	
	2,704	2,642	62	
Intersegment revenues	73	125	(52)	D
	2,777	2,767	10	
EXPENSES				
Domestic energy costs	1,196	903	(293)	B
Operations expense	174	171	(3)	
Maintenance expense	246	244	(2)	
Administration expense	157	156	(1)	
Depreciation and amortization	442	416	(26)	
Taxes	143	145	2	
Finance charges	435	428	(7)	
	2,793	2,463	(330)	
DOMESTIC INCOME (LOSS) BEFORE TRANSFER (TO)/FROM DEFERRAL ACCTS	**(16)**	**304**	**(320)**	
TRADE INCOME BEFORE TRANSFER (TO)/FROM DEFERRAL ACCTS	**256**	**89**	**167**	
TOTAL INCOME BEFORE TRANSFER (TO)/FROM DEFERRAL ACCOUNTS	**240**	**393**	**(153)**	
Heritage Deferral Account transfers	131	-	131	C
Non- Heritage Deferral Account transfers	128	-	128	C
Trade Income Deferral Account transfers	(110)	-	(110)	C-2
Regulatory provision for future removal and site restoration costs	13	-	13	
TOTAL NET INCOME	**402**	**393**	**9**	

1. The Statement of Operations is presented in a consistent format to the Statement of Operations presented in the 2004 Revenue Requirement Application.
2. The 'Plan' is the 2005 Plan per the Revenue Requirement in terms of the BCUC October 29, 2004 Decision.

SCHEDULE B

DOMESTIC COST OF ENERGY
For the year ended March 31, 2005

($ millions)	Actual	Plan	Reference Schedule
Heritage Energy:			
Water rentals	234	255	
Market electricity purchases	393	183	C-1
Natural gas for thermal generation	52	36	
Domestic Transmission	17	15	
Other	4	4	
	699	**494**	C
Non-Heritage Energy:			
IPP and long-term purchase commitments	396	380	
Non-Integrated Areas:			
NIA Fuel	9	4	
NIA IPP	7	11	
Gas and Other Transportation	15	13	
Net purchases from Powerex (Trade Account)	70	-	
	497	**408**	C
Total Domestic Cost of Energy	**1,196**	**903**	A - 2
(GW.h)			
Heritage Energy:			
Water rentals	41,601	44,980	
Market electricity purchases	6,896	4,266	C-1
Natural gas for thermal generation	600	338	
Exchange net	(440)	54	
	48,657	**49,638**	C
Non-Heritage Energy:			
IPP and long-term purchase commitments	6,445	6,540	
Non-Integrated Areas:			
NIA Fuel	72	42	
NIA IPP	36	63	
	6,554	**6,645**	C-1
Total sources of supply	**55,211**	**56,283**	
Less : Line loss and system use	(4,670)	(5,447)	C-1
Net sales to Powerex	664	(1,550)	C
Domestic Sales Volumes	**51,205**	**49,286**	C-1
($/MW.h)			
Water rentals	5.6	5.7	
Market electricity purchases	57.0	42.9	
Natural gas for thermal generation	86.7	106.5	
IPP and long-term purchase commitments	61.5	58.2	C-1
Non-Integrated Areas:			
NIA Fuel	126.2	104.2	
NIA IPP	186.3	167.8	
Total weighted average cost	21.7	16.0	

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 2004 Revenue Requirement Application. The only exception is that this schedule further breaks down energy costs between Heritage and Non-Heritage cost of energy.

SCHEDULE C

TRANSFERS TO HERITAGE (HDA) AND NON-HERITAGE (NHDA) DEFERRAL ACCOUNTS
For the year ended March 31, 2005

Reconciliation of Energy costs for Deferral Account Treatment

	Actual	Plan		Reference Schedule
($ millions)				
Heritage Energy:				
Heritage Energy costs	$ 698.9	$ 493.5		B
Notional Water rental (Displaced Hydro) *(Note 1)*	3.2	(7.5)		
Mark to market (gain)/loss on energy derivatives and financial settlements *(Note 2)*	(22.8)			C-1
Cost of energy portion of Heritage Payment Obligation	**$ 679.3**	**$ 486.0**	(a)	
Non-Heritage Energy:				
Non-Heritage Energy costs	$ 496.8	$ 408.4		B
Net sales to Powerex - Future Use *(Note 3)*		(61.0)		D
Notional water rentals (Displaced Hydro) *(Note 1)*	(3.2)	7.5		
F/X loss(gain) on Pwx trade account *(Note 4)*	(10.6)			
Mark to market (gain)/loss on energy derivatives and financial settlements *(Note 2)*	(5.3)			
Cost of energy portion of Non-Heritage Payment Obligation	**$ 477.7**	**$ 354.9**	(b)	
(GW.h)				
Heritage Energy:				
Heritage Energy Supply	48,657	49,638		B
Notional water rentals (Displaced Hydro)	664	(1,550)		B
Heritage Payment Obligation Energy	**49,321**	**48,088**		C-1

($millions)			
Transfer to HDA:			
Total Heritage energy variance	(a)	193.3	
Less: Load Variance *(Note 5)*		66.2	
		127.1	
Add: Variable Costs related to Thermal Generation		0.3	
Add: Skagit Valley Treaty Revenues and Ancillary Services Revenues		3.5	
Transfer to HDA		130.9	A
Transfer to NHDA:			
Total Non-Heritage energy variance	(b)	$ 122.8	
Less: Load Variance - IPP *(Note 6)*		(5.5)	
Load Variance - Non-Integrated areas		0.4	
Transfer to NHDA		$ 127.9	A

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 $27.8 million for the year ended March 31, 2005 with the corresponding loss shown as part of Trade Income. The gain on energy derivatives related to Non-Heritage energy totalled $7.7 million with the corresponding loss 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 energy transactions. 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 on financial settlements for the year ended March 31, 2005 was $5.0 million related to Heritage Energy and $2.4 million related to Non-Heritage Energy.

($millions) **Summary:**	Heritage	Non-	Reference Schedule
Gain (loss) on energy derivatives	$ 27.8	$ 7.7	D
Gain (loss) on Foreign exchange derivatives	(5.0)	(2.4)	
	$ 22.8	**$ 5.3**	

3. These sales relate to the return of energy bought by Powerex in prior periods to enable future sale. These revenues are eliminated against trade cost of energy on consolidation. The transactions between BC Hydro and Powerex has no net impact on the combined NHDA and the Trade Income Deferral Account.

4. This relates to the foreign exchange gain on the Trade Account payable to Powerex. Powerex would have a corresponding loss on their receivable and this loss would be part of Trade Income. Foreign exchange gains/losses arise as the Trade Account is recorded in $US. The gain/loss on the BC Hydro side is eliminated against the loss/gain on the Powerex side on consolidation within the finance charge component. As the mirror entry for Trade Income relating to F/X on the Trade Account is recorded on the Non-Heritage energy side, there is no net impact on the combined NHDA and TIDA due to these transactions.

5. Load Variance for HDA is calculated as the Load Volume variance multiplied by the actual average price of market purchases net of the gain/losses on mark to market energy transactions. (1,233 GW.h * $53.7/MW.h) = $66.2 million.

($millions)			Reference Schedule
Market energy purchases	$ 393.2		B
Mark to market gains	(22.8)		C
	$ 370.4	(1)	
Market energy purchase volumes (GW.h)	6,896	(2)	B
Average price ((1)/(2)) ($/MW.h)	53.7		
Load Volume variance (GW.h)	1,233		C

6. Load Variance for NHDA calculated as Load Volume variance multiplied by the Plan average price of IPP and long-term purchase commitments (94 GW.h * $58.2/MW.h) = $5.5 million. C

Reconciliation of Energy Volumes (GW.h)		
Increase in domestic sales volumes from Plan	1,919	B
Decrease in line loss and system use	(777)	B
Net change in volumes	1,142	
Change in HPO energy volumes	1,233	C
Change in Non-Heritage energy:		
IPP's and long-term purchase committments	(94)	B
Non-Integrated areas	3	
	1,142	

Transfer to Trade Income Deferral Account
For the year ended March 31, 2005
($ in millions)

			Reference Schedule
Actual Trade Income	$	256.0	A - 2
Excess over Cap for deferral account transfer		(56.0)	
	$	200.0	
Less: Plan Trade Income		89.5	A - 2
Transfer to Trade Income Deferral Account	**$**	**110.5**	A

BC Hydro has exceeded the $200 million cap on Trade Income largely a result of the settlement recieved from Alcan Inc in December 2004.

Schedule D

INTERSEGMENT REVENUES
For the year ended March 31, 2005

	Actual	Plan	Variance	Reference Schedule
Net sales to Powerex - Future Trade *(Note 1)*	$ -	$ 61	$ (61)	C
Point-to-Point wheeling charge to Powerex *(Note 2)*	24	50	(26)	
Point-to-Point wheeling charge to BCH *(Note 3)*	11	12	(1)	
Allocation of BCH Corporate costs to Powerex *(Note 4)*	2	2	0	
Mark to Market gains on energy derivatives with Powerex *(Note 5)*	36	-	36	C
Total	**$ 73**	**$ 125**	**$ (52)**	A - 2

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. 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 gain on energy derivatives with Powerex. This revenue is eliminated against trade income on consolidation. The gain is broken down as a $27.8 million gain on Heritage Energy and a $7.7 million gain on Non-Heritage Energy.