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July 2, 2008

Ms. Erica M. Hamilton
Commission Secretary
British Columbia Utilities Commission
Sixth Floor – 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

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

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 Deferral Account Report for the year ended March 31, 2008. This report 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 Deferral Account (BCTCDA).

BC Hydro notes this report is also attached as Appendix 3 to its Evidentiary Update filing of July 2, 2008, as part of BC Hydro's F09/F10 RRA proceeding.

For further information please contact Fred James at 604-623-4317.

Yours sincerely,



Joanna Sofield
Chief Regulatory Officer

Enclosure

BC HYDRO
DEFERRAL ACCOUNT REPORT
FOR THE YEAR ENDED
MARCH 31, 2008

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British Columbia Hydro and Power Authority
 Summary of Deferral Accounts
 For Twelve Months Ended March 31, 2008
 (\$ in millions)

Schedule A

Line No.	Particulars (1)	Opening Balance at April 1, 2007 (2)	Changes (Schedule B) (3)	Amortization (4)	Interest (5)	Ending Balance at March 31, 2008 (6)
1	Heritage Deferral Account (HDA)	\$ 178.1	\$ (56.4)	\$ (50.2)	\$ 6.3	\$ 77.9
2	Non-Heritage Deferral Account (NHDA)	208.8	(107.1)	(58.9)	8.8	51.6
3	Trade Income Deferral Account (TIDA)	(202.2)	54.2	56.9	(11.5)	(102.6)
4	BCTC Deferral Account	13.3	10.8	(3.7)	1.1	21.5
5	Total	\$ 198.0	\$ (98.5)	\$ (55.8)	\$ 4.6	\$ 48.4

10 The transfers from the HDA and NHDA are primarily related to variances in energy costs from the forecast used
 11 in establishing rates as agreed to as part of the Negotiated Settlement Agreement (NSA) of November 2006.

13 The transfers from the HDA are largely related to higher net hydro generation in place of market energy
 14 purchases resulting from higher system inflows.

16 The transfers from the NHDA are largely due to energy cost variances as a result of lower energy market
 17 purchases due to higher system inflows and due to transactions with Powerex (Net Sales to Powerex - Future Use).
 18 The offsetting transactions with Powerex are recorded as part of Trade Income. The F2008 ROE adjustment
 19 per BCUC Order No. G-17-07 also contributes to the drawdown of the NHDA.

22 Amortization of the deferral accounts is calculated in accordance with the terms of the NSA.
 23 The amortization is allocated to each deferral account based on the proportion of the ending F2007 deferral
 24 account balances.

26 Interest is calculated on the ending monthly balance (excluding the interest portion) in each deferral account.
 27 The interest rate used is BC Hydro's weighted cost of debt for the prior fiscal year ended as agreed to
 28 in the NSA.

30 Due to minor rounding some totals may not add visually.

SUMMARY OF GENERAL LEDGER ACCOUNT NUMBERS FOR DEFERRAL ACCOUNTS

	General Ledger (G/L) account numbers for Deferral Accounts	G/L account numbers for Interest on Deferral Accounts	G/L account numbers for amortization on Deferral Accounts
1	Heritage Deferral Account (HDA)	076000	076001
2	Non-Heritage Deferral Account (NHDA)	076100	076101
3	Trade Income Deferral Account (TIDA)	076200	076201
4	BCTC Deferral Account (BCTCDA)	076400	076401

British Columbia Hydro and Power Authority
 Summary of Deferral Account Additions
 For Twelve Months Ended March 31, 2008
 (\$ in millions)

Schedule B

Line No.	Particulars (1)	Actual (2)	NSA Plan (3)	Variance (4)	Reference (5)
1	Heritage Deferral Account				
2	Cost of Energy - Total Heritage	\$ 363.7	\$ 421.7	\$ (58.0)	Schedule C - Line 7
3	Notional Water Rental (Displaced Hydro)	(11.8)	(8.9)	(2.9)	Schedule F - Note 1
4	Mark to market (gains)/losses on derivatives	1.9	-	1.9	Schedule F - Note 2
5	Significant unplanned major maintenance costs	6.0	-	6.0	Schedule F - Note 7
6	Significant unplanned major capital expenditures	-	-	-	
7	Skagit Valley Treaty & Ancillary revenue	(19.7)	(24.7)	5.0	
8	Subtotal	\$ 340.0	\$ 388.1	(48.1)	
9	Amortization of unplanned deferred capital cost per				
10	BCUC Order No. G-53-02			(1.6)	
11	Cost of energy - Variable cost related to thermal generation			0.3	Schedule F - Note 3
12	Powerex adjustment			(2.0)	Schedule F - Note 8
13	Load curtailment - non deferrable			(5.0)	Schedule F - Note 9
14	Total			\$ (56.4)	
15					
16	Non-Heritage Deferral Account				
17	Cost of Energy - Total Non-Heritage	\$ 656.6	\$ 715.3	\$ (58.7)	Schedule C - Line 18
18	Notional Water Rental (Displaced Hydro)	11.8	8.9	2.9	Schedule F - Note 1
19	Mark to market (gains)/losses on derivatives	(3.0)	-	(3.0)	Schedule F - Note 2
20	Net sales to Powerex - future use	(125.6)	(92.0)	(33.6)	Schedule E - Line 9
21	FX gain on Powerex trade account	(18.6)	-	(18.6)	Schedule F - Note 4
24	Subtotal	\$ 521.2	\$ 632.3	(111.0)	
25	F08 Rate of Return On Equity Adjustment per				
26	BCUC Order No. G-17-07			(33.7)	
27	Customer Load Variance			38.0	Schedule F - Note 5
28	Founding Partner Benefits - ABS Contract			(0.5)	
29	Total			\$ (107.1)	
30					
31	Trade Income Deferral Account				
32	Actual Trade Income			\$ 82.7	
33	Excess over Cap for deferral account transfer			-	
34				82.7	
35	Less: Trade Income included in the NSA			136.9	
36	Total			\$ 54.2	
37					
38	BCTC Deferral Account				
39	BCTC Asset Management Fee:				
40	Transmission Assets	\$ 87.3	\$ 87.3	\$ -	
41	Generation Related Transmission Assets	5.4	5.4	-	
42	Substation Distribution Assets	16.2	11.7	4.5	
43	Net NITS and PTP Charges:				
44	Total NITS and PTP Charges	510.2	505.1	5.1	
45	Less: Intersegment Revenues - NITS	(389.3)	(393.7)	4.4	
46	Less: Intersegment Revenues -PTP	(54.4)	(49.9)	(4.5)	
47	Less: Charges Included in HDA and TIDA	(45.0)	(46.3)	1.3	
48	External PTP Revenues	(8.5)	(8.5)	0.0	
49	Total	\$ 121.9	\$ 111.1	\$ 10.8	

British Columbia Hydro and Power Authority
Domestic Cost of Energy
For Twelve Months Ended March 31, 2008
(\$ in millions)

Schedule C

Line No.	Particulars (1)	Actual (2)	NSA Plan (3)	Variance (4)	Reference (5)
1	Heritage Energy:				
2	Water rentals	\$ 315.0	\$ 299.9	\$ 15.1	
3	Market electricity purchases	9.8	79.0	(69.3)	
4	Natural gas for thermal generation	49.1	31.9	17.2	
5	Domestic Transmission	15.7	15.4	0.3	
6	Surplus Sales	(31.9)	-	(31.9)	
7	Other	6.0	(4.5)	10.5	
8		<u>363.7</u>	<u>421.7</u>	<u>(58.0)</u>	
9					
10	Non-Heritage Energy:				
11	IPP's and long-term purchase commitments	480.0	500.8	(20.8)	
12	Market electricity purchases (transfer from Heritage)	143.5	182.4	(38.9)	
13	Non-Integrated Areas:				
14	NIA Fuel	13.5	12.7	0.8	
15	NIA IPP's	8.2	7.8	0.3	
16	Gas and Other Transportation	11.5	11.7	(0.2)	
17		<u>656.6</u>	<u>715.3</u>	<u>(58.7)</u>	
18	Net purchases from Powerex (Trade Account)	-	-	-	
19		<u>656.6</u>	<u>715.3</u>	<u>(58.7)</u>	
20					
21	BCTC PTP & External NITS	75.9	70.4	(5.5)	
22	Total Domestic Cost of Energy	<u>\$ 1,096.2</u>	<u>\$ 1,207.4</u>	<u>\$ 111.2</u>	
23					
24					
25					
26	Heritage Energy (GWh):				
27	Water rentals	52,140	49,252	2,888	
28	Net sales to Powerex (Displaced Hydro)	(2,412)	(1,757)	(655)	
29	Market electricity purchases	145	1,190	(1,045)	
30	Natural gas for thermal generation	423	183	240	
31	Exchange net	(485)	132	(617)	
32	Surplus Sales	(811)	-	(811)	
33		<u>49,000</u>	<u>49,000</u>	<u>0</u>	
34					
35	Non-Heritage Energy (GWh):				
36	IPP's and long-term purchase commitments	7,765	7,718	47	
37	Market electricity purchases	2,113	2,747	(634)	
38	Non-Integrated Areas:				
39	NIA Fuel	73	69	4	
40	NIA IPP's	42	41	1	
41		<u>9,993</u>	<u>10,575</u>	<u>(582)</u>	
42					
43	Total sources of supply	58,993	59,575	(582)	
44	Less : Line loss and system use	(5,695)	(5,414)	(281)	
45					
46	Total Domestic Sales Volumes	<u>53,299</u>	<u>54,161</u>	<u>(862)</u>	

British Columbia Hydro and Power Authority
Consolidated Statement of Operations
For Twelve Months Ended March 31, 2008
(\$ in millions)

Schedule D

Line No.	Particulars (1)	Actual (2)	NSA Plan (3)	Variance (4)	Ref. (5)
1	REVENUES				
2	Domestic				
3	Residential	\$ 1,170.9	\$ 1,131.7	\$ 39.2	
4	Light industrial and commercial	1,054.3	1,071.0	(16.7)	
5	Large industrial	536.3	613.8	(77.5)	
6	Other energy sales	95.0	94.3	0.8	
7	Miscellaneous	31.5	43.4	(11.8)	
8		<u>2,888.0</u>	<u>2,954.1</u>	<u>(66.1)</u>	
9	Intersegment revenues	194.3	145.9	48.4	Schedule E - Line 11
10		<u>3,082.3</u>	<u>3,100.0</u>	<u>(17.7)</u>	
11	EXPENSES				
12	Domestic energy costs	1,096.2	1,207.5	111.3	Schedule C - Line 21
13	Operating costs	886.1	621.4	(265.7)	
14	Depreciation and amortization	363.4	370.5	7.2	
15	Taxes	158.6	153.5	(5.0)	
16	Finance charges	434.2	439.2	4.9	
17		<u>2,938.5</u>	<u>2,792.1</u>	<u>(147.4)</u>	
18	DOMESTIC INCOME (LOSS) BEFORE TRANSFER (TO)/FROM DEFERRAL ACCTS	143.8	307.9	(164.1)	
19					
20					
21	TRADE INCOME	82.7	137.0	(54.3)	
22	POWERTECH NET INCOME	0.6	1.3	(1.0)	
23					
24	TOTAL INCOME BEFORE TRANSFER (TO)/FROM DEFERRAL ACCOUNTS	227.1	446.2	(219.4)	
25					
26					
27	Heritage Deferral Account transfers	(98.2)	(44.4)	(53.8)	
28	Non- Heritage Deferral Account transfers	(156.9)	(71.4)	(85.5)	
29	Trade Income Deferral Account transfers	99.7	39.4	60.3	
30	BCTC Deferral Account transfers	8.1	(1.4)	9.5	
31	Regulatory provision for future removal and site restoration costs	17.9	17.2	0.7	
32	First Nation Negotiations, Litigation and Settlement Costs	234.5	3.9	230.6	
33	Regulatory Strategic Procurement Deferral	7.5	-	7.5	
34	Demand Side Management Deferral	27.3	19.7	7.6	
35	Other Regulatory Accounts	1.7	(32.8)	34.5	Note 1
36		<u>1.7</u>	<u>(32.8)</u>	<u>34.5</u>	
37	TOTAL NET INCOME	\$ 368.7	\$ 376.4	\$ (8.0)	
38					

1) Included in Other Regulatory Accounts are the following regulatory assets and liabilities: Depreciation Study Adjustments, Large Hydro Investigation Costs, Pre-1996 CIA Amortization, Foreign Exchange Deferral, System Hardening Deferral and Capital Projects Investigation Costs.

British Columbia Hydro and Power Authority
Intersegment Revenues
For Twelve Months Ended March 31, 2008
(\$ in millions)

Schedule E

Line No.	Particulars (1)	Actual (2)	NSA Plan (3)	Variance (4)	Reference (5)
1	Point-to-Point wheeling charge to Powerex	\$ 33.0	\$ 28.6	\$ 4.4	1)
2					
3	Point-to-Point wheeling charge to BC Hydro	21.4	21.3	0.1	2)
4					
5	Allocation of BC Hydro Corporate costs to Powerex	4.0	4.0	0.0	3)
6					
7	Mark to Market gains/(losses) on energy derivatives with Powerex	10.3	-	10.3	4)
8					
9	Net sales to Powerex - Future Use	125.6	92.0	33.6	Schedule F - Note 6
10					
11	Total	\$ 194.3	\$ 145.9	\$ 48.4	
12					
13					
14					

15 1) These transmission revenues relate to an allocation of BC Hydro's cost of purchases of point-to-point
16 transmission within BC for export and some import transactions. These revenues are eliminated
17 against trade cost of energy on consolidation.

18
19 2) These transmission revenues relate to an allocation of BC Hydro's cost of purchases of point-to-point
20 transmission relating to BC Hydro's Skagit Valley Treaty commitment, Canadian Entitlement Agreement
21 (BCTC OATT Schedule 02) and Scheduling, System Control & Dispatch services (BCTC OATT Schedule 03).
22 These revenues are eliminated against domestic cost of energy on consolidation.

23
24 3) These revenues relate to an allocation of corporate costs to Powerex and are eliminated against trade
25 income on consolidation.

26
27 4) This relates to mark to market gains on energy derivatives with Powerex. This revenue is eliminated
28 against trade income on consolidation. See Schedule F, Note 2.

British Columbia Hydro and Power Authority
 Explanatory Notes
 For Twelve Months Ended March 31, 2008
 (\$ in millions)

Schedule F

Line
 No.

Particulars

(1)

1 1 Notional water rentals (Displaced Hydro) relates to water rentals associated with trade income. The
 2 notional water rental mechanism is described in the response to BCUC IR No. 1.2.36 in BC Hydro's F05/06 RRA proceeding.
 3 The transactions relating to the notional water rental are eliminated on consolidation and there is no
 4 net impact on the combined HDA and NHDA as the transactions are mirrored within each account.
 5

6 2 In order to mitigate some of the commodity risk on domestic energy costs, BC Hydro enters into various
 7 forward contracts with Powerex for the purchase of electricity and natural gas. Powerex can then choose
 8 to match these forward contracts with a third party or can take on the risk/benefits on their own. The
 9 transactions between BC Hydro and Powerex are eliminated on consolidation. With respect to the deferral
 10 accounts, any gain or loss on the derivative instruments on the Powerex side would flow through the
 11 TIDA and the corresponding gain/loss on the BC Hydro side would flow through
 12 through the HDA and NHDA. While the gain/loss on these derivative instruments are not shown as part of
 13 energy costs on the financial statements due to GAAP reporting requirements, these gains/losses are
 14 reclassified for the calculation of deferral account transfers as they are part of managing the energy purchase costs.
 15

16 The loss on energy derivatives related to Heritage energy totalled \$0.4 million for the year ended
 17 March 31, 2008 with the corresponding gain shown as part of Trade Income. The gain on energy derivatives
 18 related to Non-Heritage energy totalled \$10.7 million with the corresponding loss shown as part of Trade income.
 19 The gain/loss on BC Hydro's side related to these energy derivatives is shown as part of intersegment revenues.
 20

21 BC Hydro also enters into derivatives with third parties to manage foreign exchange exposure on the corresponding
 22 energy derivatives. These foreign exchange derivative transactions are made on a cash flow basis of the underlying
 23 gas or electricity derivatives which, by market convention, settle on the 20th or 25th of the following month.
 24 Gains and losses on these transactions are netted against Heritage and Non-Heritage Energy purchase costs
 25 as they are used to manage these energy costs and mitigate risk. On the consolidated income statement these
 26 gains/losses are recorded as part of other miscellaneous income to comply with GAAP reporting requirements.
 27 The loss for the year ended March 31, 2008 was \$1.5 million related to Heritage Energy and a loss of \$7.7
 28 million related to Non-Heritage Energy.
 29

30 In accordance with the terms of the F07/F08 RRA NSA, BC Hydro no longer enters into any new
 31 hedging contracts in regard to natural gas purchases.
 32
 33
 34

35 Gain / (Loss) on energy derivatives
 36 Gain / (Loss) on Foreign exchange derivatives
 37 Total Gain/(Loss) on Derivatives

	Heritage	Non- Heritage	Total
\$	(0.4)	\$ 10.7	\$ 10.3
	(1.5)	(7.7)	(9.2)
\$	(1.9)	\$ 3.0	\$ 1.1
\$	1.0	\$ 14.1	\$ 15.1
	(2.9)	(11.1)	(14.0)
\$	(1.9)	\$ 3.0	\$ 1.1

38
 39 Total Gain/(Loss) on Electricity
 40 Total Gain/(Loss) on Gas
 41
 42

43 3 Variance from plan related to natural gas for thermal generation GWh (per Schedule C- L30)
 44 Average cost per MWh of additional production per F07/F08 RRA filing
 45 Total variable cost related to thermal generator

GWh	240
\$ MWh	1.25
\$ million	0.30

British Columbia Hydro and Power Authority
 Explanatory Notes
 For Twelve Months Ended March 31, 2008
 (\$ in millions)

Schedule F (cont.)

Line
No.

Particulars
(1)

1 4 This relates to the foreign exchange gain/loss on the Trade Account payable to Powerex. Powerex would have
 2 a corresponding loss/gain on their receivable and this loss/gain would be part of Trade Income. Foreign exchange
 3 gains/losses arise as the Trade Account is recorded in \$US. The gain/loss on the BC Hydro side is eliminated
 4 against the loss/gain on the Powerex side of consolidation within the finance charge component. As the mirror
 5 entry for Trade Income relating to the foreign exchange on the Trade Account is recorded on the Non-Heritage
 6 energy side, there is no net impact on the combined NHDA and TIDA due to these transactions.
 7

8 5 Load Variance; If total Heritage and non-Heritage energy volumes are lower than Plan, the Load variance is
 9 calculated using the Plan YTD average market purchase price of electricity. If total Heritage and non-Heritage
 10 energy volumes are higher than Plan, the Load variance is calculated using the Actual YTD average market
 11 purchase price of electricity (netted for any gains/losses on energy derivatives and financial instruments used to
 12 manage energy costs).
 13

	Heritage	Non-Heritage		Total
		IPP & Market Purchases	Non-Integrated	
14 Load Volume Variance (Schedule C- L41) (GWh)	-	(587)	5	(582)
15 Average price of market electricity purchases (\$/MWh)	66.39	66.39	187.73	
16 Load Volume variance \$ millions	\$ -	\$ (38.9)	\$ 0.9	\$ (38.0)

21
 22 Total Heritage energy (including Skagit commitments) is limited to 49,000 GWh in terms of the Heritage Contract.
 23 This Heritage Contract limit would be exceeded if all market energy purchases were allocated to Heritage Energy
 24 supply. Therefore, a portion of the market purchases are allocated to Non-Heritage Energy in order to reduce the
 25 Heritage Energy volumes to the Heritage Contract limits as follows:
 26

	GWh
27 Total Heritage Energy excluding Market Purchases	51,267
28 Less: Net Sales to Powerex (Displaced Hydro Generation)	(2,412)
29 100% of Market Energy Purchases	2,258
30 Total Heritage Energy including 100% of Market Energy Purchases	51,113
31 Less : Heritage Contract Limit of 49,000 GWh	49,000
32 Excess Market Purchases over 49,000 GWh	2,113

33
 34 The cost of market energy purchases and related energy and foreign exchange derivatives are allocated between
 35 Heritage Energy and Non-Heritage Energy based on allocation of market purchases
 36

	GWh	Non-Heritage		Total
		Heritage	Non-Heritage	
37 Market Electricity Purchase volumes - GWh (Schedule C L29 and L37)	145	2,113	2,258	
38 Total Market Energy Purchases costs (Schedule C L2 and L12)	\$ 9.8	\$ 143.5	\$ 153.3	
39 Mark to Market loss/(gains) - (Schedule F, note 2)	(1.0)	(14.1)	(15.1)	
40 Total Market Energy Purchases costs (\$ millions)	\$ 8.8	\$ 129.4	\$ 138.2	
41 Actual Price of Market Electricity Purchases(\$ / MWh)	61.00	61.22	61.20	
42 Plan Price of Market Electricity Purchases(\$ / MWh)	66.39	66.39	66.39	

British Columbia Hydro and Power Authority
Explanatory Notes
For Twelve Months Ended March 31, 2008
(\$ in millions)

Schedule F (cont.)

Line No.	Particulars
	(1)
1	6 These sales relate to the return of energy bought by Powerex in prior periods to enable future sales.
2	These revenues are eliminated against trade cost of energy on consolidation. The transactions between
3	BC Hydro and Powerex has no net impact on the combined NHDA and the TIDA.
4	
5	7 Significant unplanned major maintenance costs of \$6.0M includes Lake Buntzen 1 turbine (\$2.9M), Williston
6	& Mica debris work (\$1.5M), Ted Creek flood (\$1.1M) and GMS G6 Excitor repair (\$0.5M).
7	
8	8 The adjustment relates to a correction of an error in F2007. The error was identified in March 2008
9	and corrected.
10	
11	9 Load curtailment costs not related to Vancouver Island are not currently eligible for deferral treatment.
12	BC Hydro's load curtailment costs totalled \$7.8 million in F2008 and these are included in line 2 of
13	Schedule B. The \$5.0M relates to non-Vancouver Island load curtailment costs and are removed
14	for deferral purposes.

Schedule G

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)

Commission Directive October 29, 2004 Page 41:

Commission Findings

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.

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 *¹.

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*³.
- If no market purchases are planned or made, the next dispatchable resource is assumed to be generation from the Burrard facility.
- If total Heritage and non-Heritage energy volumes are lower than Plan, the Load variance is calculated using the Plan YTD average market purchase price of electricity*³.
- If total Heritage and non-Heritage energy 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)*³.
- The total Heritage Energy (including Skagit / Seattle City Light commitments) is limited to 49000 GWh in terms of the Heritage contract. If the Heritage Energy including 100% of market electricity purchases exceeds the Heritage Energy limit, the excess purchases are transferred to Non-Heritage Energy in order to reduce the Heritage Energy volumes to the Heritage Contract limit.
- 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*¹.
3. Significant unplanned major maintenance costs greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events*¹.
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*¹.
5. Amortization of unplanned deferred capital costs pursuant to Commission Order No. G-53-02*¹.
6. All net revenues from surplus hydro electricity sales*².
7. Skagit Valley Treaty revenues and ancillary services revenues*².

- An interest charge/credit³ 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 for the prior fiscal year ended.

*¹ Per Commission Directive October 29, 2004 Page 30, Section 4.4 & Page 41 (Commission Findings)

*² Per Commission Directive October 29, 2004 Page 31, Section 4.4 & Page 41 (Commission Findings)

*³ Per Commission Directive October 29, 2004 Page 45, Section 4.11 and amended by the Negotiated Settlement Agreement of November 2006.

Non-Heritage Deferral Account (NHDA)

Commission Directive October 29, 2004 Page 41:

Commission Findings

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.

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

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

- If total Heritage and Non-Heritage energy volumes are lower than Plan, the Non-Heritage Load Variance (volume variances for IPP, Long term purchases and Market Purchases transferred from Heritage Energy) is calculated using the Plan YTD average market purchases price of electricity *². For Non – Integrated supply, the fuel costs are treated as the next dispatchable resource.
- If total Heritage and Non-Heritage energy volumes are higher than Plan, the Non-Heritage Load Variance (volume variances for IPP, Long term purchases and Market Purchases transferred from Heritage Energy) is calculated using the Actual YTD average market purchases price of electricity (netted for any gains/losses on energy derivatives and financial instruments used to manage energy costs) *². For Non – Integrated supply, the fuel costs are treated as the next dispatchable resource.
- 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 BCH 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 Heritage Payment Obligation (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*¹.

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 events¹.

4. Founding Partner Benefits and any CIS Credits under the ABS Contract¹.

•An interest charge/credit² 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 for the prior fiscal year ended.

¹ * Per Commission Directive October 29, 2004 Page 37, Section 4.5 & Page 41 (Commission Findings).

² * Per Commission Directive October 29, 2004 Page 45, Section 4.11 and amended by the Negotiated Settlement Agreement of November 2006.

Trade Income Deferral Account (TIDA)

Commission Directive October 29, 2004 Page 42, Section 4.6

Commission Findings

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

•Any variance between the forecast Trade Income and the actual trade income*¹ will flow through the TIDA except where Annual Trade Income is below \$Nil and above \$200 million.

•An interest charge/credit*² 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 for the prior fiscal year ended.

¹ Per Commission Directive October 29, 2004 Page 42, Section 4.6

² Per Commission Directive October 29, 2004 Page 45, Section 4.11 and amended by the Negotiated Settlement Agreement of November 2006.

BCTC Deferral Account (BCTC DA)

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

Commission Findings

The Commission Panel approves the BCTC DA 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.

•The BCTC Deferral Account relates to two variances:

- a) variances between BC Hydro's Asset Management/Maintenance Revenue Requirement forecast in BC Hydro's Revenue Requirement and BC Hydro's actual Asset Management/Maintenance charges from BCTC, and
- b) variances between BCTC's Revenue Requirement forecast charges to BC Hydro in BC Hydro's Revenue Requirement and the BCTC charges to BC Hydro for transmission services.

•An interest charge/credit¹ is to be calculated on the ending annual balance (excluding the interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost of debt for the prior fiscal year ended.

¹ Per Commission Directive October 29, 2004 Page 45, Section 4.11 and amended by the Negotiated Settlement Agreement of November 2006.