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February 22, 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)
Transmission Service Rate (TSR) Re-pricing Application (the Application)**

BC Hydro is writing to the BCUC for approval to amend the energy charges of RS 1823, RS 1825, RS 1880 and RS 1890, effective April 1, 2008. To this end, BC Hydro invokes the BCUC's authority pursuant to sections 58-61 and section 90 of the *Utilities Commission Act*. The rate schedules noted are those under which BC Hydro provides service to its transmission customers and which have energy charges that are based at least in part on BC Hydro's long-term opportunity cost of new supply. In this application BC Hydro proposes to change these energy charges to reflect current information regarding that cost, namely the results of its F2006 Call for Tender (F2006 CFT). BC Hydro also seeks relief incidental to the re-pricing proposals, as described below and in section 6.

Specifically, BC Hydro is applying to increase the energy charge under section B of RS 1823 (the Stepped Rate) to all kWh above 90 per cent of a customer's customer baseline load (CBL) (commonly referred to as the Tier 2 Rate) from the current rate of 5.400 cents/kWh to 7.360 cents/kWh. The methodology for determining the Tier 2 Rate is provided in Appendix A.

BC Hydro is also seeking approval to change the rate charged to customers for all kWh up to and including 90 per cent of the customer's CBL (commonly referred to as the Tier 1 Rate). The Tier 1 Rate is calculated residually, after the Tier 2 Rate is set, and is subject to revenue requirement and rate rebalancing changes, on a revenue neutral basis. (See discussion below about the meaning of "revenue neutral" in the context of the Stepped Rate). On February 20, 2008 BC Hydro also applied for BCUC approval of an interim revenue requirement rate increase of 6.56 per cent, to be effective on an interim basis on April 1, 2008 (F09/F10 RRA), and has also sought a BCUC order suspending the effect of the rate rebalancing elements of its decision and orders regarding BC Hydro's 2007 Rate Design Application (2007 RDA Phase 1 Decision and Rate Rebalancing Reconsideration Application).¹ Thus the specific relief BC Hydro seeks regarding the Tier 1 Rate to be effective on April 1, 2008 is dependent on these other two applications.

An illustrative copy of revised tariff page 46 reflecting the proposed Tier 2 Rate of 7.360 cents/kWh and a Tier 1 Rate of 2.462 cents/kWh is found in Appendix B. The Tier 1 Rate shown was calculated

¹ BC Hydro F2009/F2010 Revenue Requirements Application, February 20, 2008 and Application for Reconsideration of Orders G-111-07, G-130-07, and G-10-08 and Certain Directions in the 2007 RDA Phase 1 Decision, February 20, 2008.



on the assumption that the BCUC allows both the interim rate increase sought in the F09/F10 RRA and suspends the rate rebalancing effects of the 2007 RDA Phase 1 Decision. BC Hydro is also applying to adjust the Tier 1 and Tier 2 energy rates charged under RS 1825 (Transmission Service Time of Use Rate or TOU Rate). As with the Stepped Rate, the TOU Tier 2 rates are proposed to be re-set on the basis of the F2006 CFT, while the TOU Tier 1 rates are set equal to the Tier 1 Rate under the Stepped Rate and are dependent on the outcomes of the request for interim relief in the F09/F10 RRA and the Rate Rebalancing Reconsideration Application. The proposed TOU Tier 2 rates are shown in Table 1 on page 4 and an illustrative copy of the TOU tariff pages, based on the proposed change to the TOU Tier 2 rates and calculated on the assumption that the BCUC allows both the interim rate increase sought in the F09/F10 RRA and suspends the rate rebalancing effects of the 2007 RDA Phase 1 Decision, is found in Appendix B. The derivation of the Tier 1 and Tier 2 TOU rates is described in Appendix C

Finally, as a consequence of the above requested rate changes, BC Hydro is applying to change the energy charge for RS 1880 (Transmission Service - Standby and Maintenance Supply) to the updated RS 1823 Tier 2 Rate, and to change the energy imbalance prices in RS 1890 (Transmission Service - Energy Imbalance) to equal the updated TOU Tier 1 and Tier 2 rates. Illustrative tariff pages 59 and 63 reflecting these revisions and calculated on the basis of the previously stated assumptions are included in Appendix B.

Appendix D includes the draft BCUC orders requested by BC Hydro (interim and final). BC Hydro is proposing to make the changes to the subject rates effective April 1, 2008 on an interim basis, and relies on these submissions in support of that relief. Because the Tier 1 Rate can not be finally determined until final orders in the F09/F10 RRA are issued, even the "final" order attached at Appendix D contemplates a final resolution in this proceeding of only the Tier 2 Rate pricing.

BC Hydro is not proposing in this application any other changes to its rates or terms and conditions of service. Further, BC Hydro is not seeking any relief in this application in regard to either RS 1827 or RS 1823A. RS 1827 is the rate applicable to exempt transmission customers, and is referred to as the Exempt Rate, while RS 1823A is applicable to new customers or customers who have had plant capacity increases. Both have the same structure as the obsolete RS 1821, with a flat energy rate that is the basis for the proposed RS 1823 Tier 1 and Tier 2 Rates, as explained below.

Also attached to this application at Appendix E, is BC Hydro's first annual Transmission Service Rate Report (TSR Report), covering the F2007 period (April 1, 2006 to March 31, 2007).

Sections 1 to 4 of this application provide further information on the different transmission service rates and the proposed changes to them. Section 5 addresses the expected revenue implications for BC Hydro arising from the proposed re-pricing of the Stepped Rate. In that section BC Hydro explains why it may require an accounting order from the BCUC with regard to these revenue implications. In section 6 BC Hydro addresses the regulatory process for the review of this application and the TSR Report.

1. RS 1827 (Exempt Rate) and RS 1823A

As noted above, customers on RS 1827 and RS 1823A are charged a flat energy rate that is equivalent to what they would have been charged under the former RS 1821, adjusted for revenue requirement increase and rate rebalancing reasons. This flat energy rate is one of the elements upon which all other transmission service energy charges are calculated. Appendix A shows the flat energy rate that would come into effect on April 1, 2008 and upon which the energy charges that are the subject of this application are based, assuming the interim F09/F10 RRA increase of 6.56 per cent is allowed and the rate rebalancing elements of the 2007 RDA Phase 1 Decision are suspended.

2. RS 1823 (Stepped Rate)

2.1 Background

The current RS 1823 Tier 2 Rate has been in place since April 1, 2006, when RS 1823 became effective. BC Hydro's March 2005 Transmission Service Rate Application (2005 TSR Application) proposed that the Tier 2 Rate be based on the weighted average price of the last province-wide Call for Tender (CFT) for energy, which was 5.400 cents/kWh and which is equal to the weighted average plant gate price of energy contracts from the F2003 Green Power Generation Call. BC Hydro also proposed that the rate would be set at 5.400 cents/kWh until the results of the next province-wide CFT for energy were available, and that the earliest date for any adjustment to the Tier 2 Rate would be April 2008.

The 2005 TSR Application was successfully resolved by way of a negotiated settlement process. In the resulting negotiated settlement agreement (the 2005 TSR NSA), participants agreed that:

To strike a balance between the participants' respective positions, it is agreed that the earliest date the Tier 2 price will be adjusted is April 1, 2008, at which time it will be reset to reflect the most appropriate CFT price.

The 2005 TSR NSA was approved by BCUC Order No. G-79-05.

Further background to the Stepped Rate is found in the accompanying TSR Report at Appendix E.

2.2 RS 1823 (Stepped Rate) Tier 2 Rate

BC Hydro is proposing that the Tier 2 Rate be set equal to the levelized, weighted-average plant-gate price of energy resulting from the F2006 CFT. The F2006 CFT was an open, province-wide call for energy, is BC Hydro's most recent call for energy, and is the one that BC Hydro considers to be the most appropriate CFT for the purpose of setting the Tier 2 Rate consistent with the design principles of the Stepped Rate at paragraph 3(1) of Special Direction No. HC2 and the 2005 TSR NSA. That is, the F2006 CFT price best reflects BC Hydro's long-term opportunity cost of new supply at this time.

The proposed Tier 2 Rate of 7.360 cents/kWh was developed on much the same basis used to determine the current rate of 5.400 cents/kWh. Appendix A provides the rationale for proposing the levelized plant-gate price as the Tier 2 Rate and also provides additional detail on how the 7.360 cents/kWh was calculated.

2.3 RS 1823 (Stepped Rate) Tier 1 Rate

Under the Stepped Rate, any calculation of a new Tier 1 Rate must be on a revenue neutral basis. Revenue neutrality means, at least in the context of RS 1823, that a customer that consumes exactly its CBL will, after implementation of RS 1823, have the same total bill as prior to implementation, all other things being equal. In other words, revenue neutrality in this context means bill neutrality, and the new Tier 1 Rate has therefore been calculated to ensure that a customer would have the same bill under the Stepped Rate at its CBL consumption level, as it would have had if it were taking service under the Exempt Rate, RS 1827. The Tier 1 Rate is also derived assuming the 90/10 - Tier 1 Rate/Tier 2 Rate split with respect to RS 1827 as defined above. Together this means that if each customer is consuming at its CBL, 90 per cent of annual consumption will be billed at the Tier 1 Rate and 10 per cent will be billed at the Tier 2 Rate and each customer will pay the same amount as they would have under RS 1827. Customers who consume less than their CBL will pay an

average rate that is lower than the RS 1827 rate and will therefore pay less than they would under RS 1827, and vice versa.

Appendix A provides the details of the Tier 1 Rate calculation, for illustrative purposes, at this time.

3. RS 1825 (TOU Rate)

BC Hydro's TOU rate, RS 1825, was approved by the BCUC at the same time as RS 1823, and has been available to transmission service customers since April 1, 2006.

As a result of revising the energy charges for RS 1823, it is also necessary to revise the energy charges in the TOU rate, as they are derived directly from the RS 1823 energy charges.

The following table summarizes the proposed RS 1825 rates:

Table 1 Revised April 1, 2008 TOU Energy Charges

Pricing Period	Tier 2 rate (cents/kWh)
Winter HLH	8.213
Winter LLH	7.443
Spring	6.629
Remainder	7.269
Weighted Average	7.360

Under the TOU rate structure, the Tier 1 rate and the annual weighted-average Tier 2 rate are the same as the RS 1823 Tier 1 Rate and Tier 2 Rate. Thus TOU Tier 2 rates are proposed to be set so that their annual weighted-average is 7.360 cents/kWh. As noted above, the derivations of the Tier 1 and Tier 2 rates for RS 1825 are found in Appendix C.

4. RS 1880 and RS 1890

RS 1880 (Transmission Service - Standby and Maintenance Supply) is available to transmission service customers on RS 1823, 1825 or 1827 who have self-generation and, from time to time, may be required to take energy from BC Hydro on an *ad hoc* basis to make up for reduced generation of their own. The rate charged for energy taken under RS 1880 is equal to the Tier 2 Rate under RS 1823. Therefore, as a consequence of changing the Tier 2 Rate, the energy rate for RS 1880 should also be adjusted to 7.360 cents/kWh.

RS 1890 (Transmission Service - Energy Imbalance) is for RS 1823 customers who have entered into a Retail Access Program Agreement. The energy imbalance prices are equal to the TOU Tier 1 and Tier 2 rates charged in the winter, spring and remaining periods (including High Load Hour (HLH) and Low Load Hour (LHL) pricing). The consequential Tier 2 rates for RS 1890 are shown in the table below; the consequential Tier 1 rates are shown in Appendix A; and additional detail on the derivation of the updated RS 1825 rates used in RS 1890 is found in Appendix C.

Table 2 Revised April 1, 2008 Energy Imbalance Prices

Pricing Period	Tier 2 rate (cents/kWh)	
March to April	7.269	
May to June	6.629	
July to October	7.269	
November to February	8.213	7.443
	(HLH)	(LLH)

5. Revenue Implications of Proposed Re-Pricing of Stepped Rate

The revenue and load forecasts BC Hydro has employed in the F09/F10 RRA assume the current Tier 2 Rate, and a Tier 1 Rate calculated on the basis of an April 1, 2008 implementation of the RS 1823 rate rebalancing elements of the 2007 RDA Decision. However, the change proposed to the Tier 2 Rate and the consequential change to the Tier 1 Rate, will result in a reduction in revenue to BC Hydro relative to the revenue BC Hydro would earn under the current pricing, all other things being equal.

The impacts on BC Hydro's revenues from the proposed re-pricing of the Stepped Rate are shown in Table 3 below. This comparison assumes that the rebalancing elements of the 2007 RDA have not been implemented.

As noted above, revenue neutrality is only reached if the customer consumes its exact CBL amount. The forecast revenue shortfalls shown below arise solely from the proposed change in the RS 1823 pricing and the fact that total RS 1823 aggregate consumption forecasts are less than aggregate CBLs, are independent of any demand response to the new pricing, and therefore do not account for any consequential cost of energy impacts.

Table 3 Incremental Revenue Impact from Proposed RS 1823 Tier 1 and Tier 2 Rates

	Forecast Fiscal 2009 MWh	Forecast F2009 Rates and Revenue (F09/F10 RRA)	Forecast F2009 Rates and Revenue Assuming : • Re-pricing of Tier 2 • RDA Decision reversed	Forecast Revenue Difference
RS 1823 Tier 1 cents/kWh		2.652	2.462	
RS 1823 Tier 2 cents/kWh		5.400	7.360	
	Energy Sales (MWh)	Revenue	Revenue	
		(\$000)	(\$000)	(\$000)
RS 1823 Tier 1	13,852,323	\$367,364	\$341,044	(\$26,319)
RS 1823 Tier 2	1,073,271	\$57,957	\$78,993	\$21,036
Total RS 1823	14,925,594	\$425,320	\$420,037	(\$5,283)

The revenue shortfalls shown above are currently unaccounted for in the F09/F10 RRA. Thus, if the BCUC grants the re-pricing relief sought by BC Hydro in this application, BC Hydro also seeks an order allowing it to record this revenue shortfall in a regulatory account for recovery in rates in a future period. However, if this application is resolved by a final BCUC order prior to the filing of an evidentiary update in the F09/F10 RRA proceeding, then BC Hydro would account for the forecast revenue deficiency arising from the proposed re-pricing in the evidentiary update, and the accounting order would not be required.

6.0 Process for Review of Application

6.1 Review Process for Final Order

On February 20, 2008 BC Hydro filed its F09/F10 RRA and shortly after the filing of this application, will also be filing a Residential Inclining Block (RIB) Rate application. Given the near-coincident timing of the F09/F10 RRA, the RIB Rate application and this application, BC Hydro anticipates a resource strain for the BCUC, intervenors and itself. It will be a challenge to draft, respond to and absorb responses to Information Requests (IRs) in all three applications, at more-or-less the same time. Coordination of the three processes will be essential to keep them proceeding in a timely fashion. To that end, BC Hydro has proposed an initial process in the F09/F10 RRA that it repeats here and that would provide for the following:

1. F09/F10 RRA workshop: Thursday, March 6, 2008. (Please note that BC Hydro is holding a stakeholder workshop on inputs to its 2008 LTAP on Wednesday, March 5, 2008);
2. BCUC IRs on the F09/F10 RRA issued: Wednesday, March 12, 2008;
3. RIB/TSR Re-Pricing workshop: Thursday, March 13, 2008;
4. BCUC IRs on the RIB Rate application and the TSR Re-pricing application issued: Tuesday, March 18, 2008;
5. Registration of intervenors and interested parties for all three proceedings: Thursday, March 20, 2008;
6. Intervenor IRs on all three applications issued: Tuesday, March 25, 2008;
7. BC Hydro responses to all IRs on the RIB Rate application and the TSR Re-pricing application: Friday, April 18, 2008; and
8. BC Hydro responses to all IRs on the F09/F10 RRA: Wednesday, April 23, 2008.

After the first round of IRs for each of the three applications, the BCUC, BC Hydro and intervenors will be in a better position to form views on how each of the applications ought to be finally resolved. Accordingly, BC Hydro proposes a procedural conference on or about Monday, April 28, 2008 to consider further process issues for all three applications, including consideration of which applications might be resolved through negotiated settlement or written process.

6.2 Review Process for Interim Order

In order to implement an interim order approving the re-pricing of the TSR rates by April 1, 2008, as proposed, BC Hydro requires interim orders on this application and on the interim relief sought in the F09/F10 RRA, as well as BCUC orders regarding BC Hydro's January 30, 2008 2007 Rate Design

Application compliance filing and the Rate Rebalancing Reconsideration Application, all on or before March 14, 2008. To that end BC Hydro has proposed a consolidated process to allow parties to make submissions on the immediate relief requested in this application, the F09/F10 RRA, and the Rate Rebalancing Reconsideration Application, as follows:

1. submissions by parties on or before March 7, 2008 regarding the interim relief sought in this application and the F09/F10 RRA, as well as the relief sought in the Rate Rebalancing Reconsideration Application;
2. reply submissions by BC Hydro on or before March 11, 2008; and
3. a BCUC order on or before March 14, 2008 that would allow or deny the requested relief, and that would address the January 30, 2008 compliance filing in a manner consistent with the BCUC's views regarding the requested relief.

In light of the foregoing, BC Hydro respectfully requests that the BCUC issue an order establishing the proposed preliminary process as soon as is convenient.

For further information, please contact the undersigned.

Yours sincerely,



Joanna Sofield
Chief Regulatory Officer

Enclosures (5)

- c. BC Hydro 2007 Rate Design Application Intervenors, Project No. 3698455

APPENDIX A

Calculation of the RS 1823 Tier 1 and Tier 2 Rates

Tier 1 Energy Rate Calculation

The RS 1823 Tier 1 Rate is calculated assuming that 90 per cent of total RS 1823 energy is billed at the Tier 1 Rate and 10 per cent is billed at the Tier 2 Rate, and the Tier 1 and Tier 2 Rates result in the same revenue as the exempt flat energy rate (RS 1827) at customers' Customer Baseline Load (CBL) consumption levels. The formula for the Tier 1 Rate is therefore equal to the following:

$$\text{Tier 1 Rate} = ((\text{RS1827 Rate} - 0.1 \times \text{Tier 2 Rate})/0.9)$$

On the basis of the proposed F2009 revenue requirement rate increase of 6.56 per cent and no rate rebalancing, the current RS 1827 energy rate of 2.770 cents/kWh would increase by 6.56 per cent on April 1, 2008 as follows:

$$\text{April 1 RS 1827 rate} = \text{current RS 1827 rate} \times 1.0656$$

$$= 2.770 \times 1.0656$$

$$= \mathbf{2.952 \text{ cents/kWh}}$$

The Tier 1 Rate would be calculated by using the RS 1827 rate of 2.952 cents/kWh, from the formula above, and the proposed Tier 2 Rate of 7.360 cents /kWh as follows:

$$\text{Tier 1 Rate} = ((2.952 - 0.1 \times 7.360)/0.9)$$

$$= 2.462 \text{ cents/kWh}$$

Rationale for Tier 2 Rate

The existing Tier 2 Rate is based on the weighted-average price of firm energy contracts arising from the F2003 province-wide Green Power Generation call for energy, which was \$54/MWh in nominal dollars in F2007 after rounding. This price is at the plant-gate, meaning that it excludes all delivery costs.

The proposed Tier 2 Rate is based on the levelized weighted-average plant-gate price of \$73.60/MWh from the F2006 CFT. The F2006 CFT is more current than the F2003 Green Power Generation call, and therefore the results of it better reflect BC Hydro's cost of new supply. In addition using the levelized price for the Tier 2 Rate

reflects the cost to BC Hydro of new supply over a variety of contract terms, and is thus a better indicator generally of BC Hydro's long-term cost of new supply, than if BC Hydro had used simply a weighted-average un-levelized price in nominal dollars.

BC Hydro also believes that the use of the plant-gate price is consistent with the retail access objectives and provisions of RS 1823.

Under the provisions of Tariff Supplement No. 71, the Retail Access Program Agreement, retail access can occur via BCTC's Open Access Transmission Tariff (OATT). The customer can either arrange for transmission service from BCTC and the energy from a third party supplier, or alternatively, the customer may still be supplied by BC Hydro, but BC Hydro would treat the energy from the third party retail supplier as an integrated network resource. Either way the customer would still pay the transmission demand charge, based on its full load.

Therefore, in BC Hydro's view, the Tier 2 Rate should be set at the plant-gate price as it provides a level playing field for independent power producers to compete with BC Hydro for Tier 2 load consistent with one of the design principles of the rate structure.

Tier 2 Energy Rate Calculation

The levelized weighted-average plant-gate price of \$73.60/MWh was determined by dividing the total plant-gate cost of energy per year (\$524,568,600) by the total volume per year (7,125,000 MWh). The \$73.60/MWh plant-gate price is referenced on page 53, line 14, of the Report on the F2006 Call for Tender Process Conducted by BC Hydro (August 31, 2006).

APPENDIX B

Tariff Pages for RS 1823, 1825, 1880, and 1890

(Black-lined)

Draft BC Hydro Tariff Pages – April 1, 2008

The attached draft tariff sheets show the proposed rate changes that would be effective April 1, 2008 that arise from this application, based on an assumption that the BCUC has allowed an interim across-the-board rate increase of 6.56 per cent as requested in BC Hydro's F09/F10 RRA and that the rate rebalancing effects of the 2007 RDA have been suspended.

Rate Schedule 1823

SCHEDULE 1823 – TRANSMISSION SERVICE – STEPPED RATE

Availability: For all purposes. Supply is at 60,000 volts or higher. Customers being supplied with electricity under Schedule 1825 (Transmission Service Time-of-use) may only revert to service under this Schedule as permitted under Schedule 1825.

Applicable in: Rate Zone 1 excluding the Districts of Kingsgate-Yahk and Lardeau-Shutty Bench.

Rate: Demand Charge: ~~\$5.0364.726~~ per kV.A of Billing Demand per Billing Period.

Plus

Energy Charge:

- A. For new Customers and Customers supplied with Electricity under Schedule 1821 for less than 12 Billing Periods as of the date this Schedule becomes effective:

2.~~952770~~ ¢ per kW.h for all kW.h per Billing Period

This rate will apply until the Customer has been supplied with Electricity under this Schedule, or under Schedule 1821 together with this Schedule, for 12 Billing Periods, after which the Customer will be supplied with Electricity at the Rate specified in Part B below.

- B. For Customers supplied with Electricity under Schedule 1821 for 12 Billing Periods or longer as of the date this Schedule becomes effective, or supplied with Electricity under Schedule 1821 together with this Schedule, for 12 Billing Periods:

2.~~462477~~ ¢ per kW.h applied to all kW.h up to and including 90% of the Customer's CBL in each Billing Year.

~~7.3605.400~~ ¢ per kW.h applied to all kW.h above 90% of the Customer's CBL in each Billing Year.

Note: Customers previously supplied with electricity under Schedule 1825 will be subject to the rates in Part B above from the time the Customer commences taking service under this Schedule.

Billing Year:

The Billing Year is the 12 billing month period starting with the first day of the Billing Period which commences nearest to April 1st in each year, and ending on the last day of the 12th Billing Period thereafter.

**Billing
Demand:**

The Demand for billing purposes shall be:

1. the highest kV.A Demand during the High Load Hours (HLH) in the Billing Period; or
2. 75% of the highest Billing Demand for the Customer's Plant in the immediately preceding period of November to February, both months included; or
3. 50% of the Contract Demand stated in the Electricity Supply Agreement for the Customer's Plant,

whichever is the highest value, provided that for new Customers the Billing Demand for the initial 2 Billing Periods shall be the average of the daily highest kV.A Demands for the Customer's Plant.

The HLH period is defined as the hours from 06:00 to 22:00 Monday to Saturday, except for Statutory Holidays.

The LLH period is defined as all other hours.

Statutory Holidays for the purpose of this Schedule are New Years Day, Good Friday, Victoria Day, Canada Day, B.C. Day, Labour Day, Thanksgiving Day, Remembrance Day and Christmas Day.

**Monthly
Minimum
Charge:**

~~\$5.0364.726~~ per kV.A of Billing Demand

**Customer
Baseline
Load:**

The Customer Baseline Load (CBL) is the Customer's historic annual energy consumption in kW.h as approved by the British Columbia Utilities Commission. The Customer's CBL will initially be determined by BC Hydro, and be subject to revision from time to time, in accordance with the criteria and procedures set forth in B.C.Hydro's "Customer Baseline Load (CBL) Determination Guidelines". All CBL's will be subject to final approval of the British Columbia Utilities Commission.

**Aggregation
of Customer
Baseline
Load:**

A Customer having two or more operating plants may elect to have a single aggregated CBL determined for all or any combination of its operating plants in accordance with the CBL Determination Guidelines.

Thereafter, BC Hydro will issue a single bill for all operating plants included in the aggregation, and the energy charge payable will be determined on the basis of the aggregated CBL. However, the Demand Charge will continue to be determined separately for each operating plant.

**Energy
Determination
under Retail
Access:**

If the Customer has entered into a Retail Access Program Agreement that is in effect, the quantity of Schedule 1823 energy is defined as the total metered kW.h consumption of the Customer's Plant less the Net Scheduled Output. The Net Scheduled Output is the Gross Scheduled Output adjusted by the Energy Loss Adjustment Factor of 6.28%. The Net Scheduled Output and Gross Scheduled Output are as defined in the Retail Access Program Agreement. If the Net Scheduled Output is greater than the total metered kW.h consumption of the Customer's Plant, then the quantity of Schedule 1823 energy is zero.

**Special
Conditions:**

The following Special Conditions are applicable to this Schedule:

1. If any initial, revised, or aggregate CBL for a Customer has not been determined by BC Hydro and approved by British Columbia Utilities Commission by the time the CBL would become effective, BC Hydro may determine the CBL on an interim basis, and apply the CBL so determined for purposes of any Billing Periods and bills rendered to the Customer until such time as the CBL has been finally determined and approved by the British Columbia Utilities Commission, whereupon BC Hydro will make any necessary billing adjustments.
2. If a Customer taking service at the rates in Part B of the Energy Charge rate section above terminates service under this Schedule prior to the end of a Billing Year, the Customer's CBL or aggregate CBL will be prorated for the portion of the Billing Year during which the Customer was taking service, and the prorated CBL or aggregate CBL will be used for purposes of applying the rates in Part B to all electricity consumption during the Billing Year up to the time of termination. BC Hydro will make any necessary billing adjustments and bill the Customer for the difference (if any) owing.

Note:

The terms and conditions under which transmission service is supplied are contained in Electric Tariff Supplements 5 and 6.

Rate Rider:

The Deferral Account Rate Rider as set out in Rate Schedule 1901 applies to all charges payable under this Rate Schedule, before taxes and levies.

Rate Schedule 1825

SCHEDULE 1825 – TRANSMISSION SERVICE – TIME-OF-USE (TOU) RATE

Availability: For Customers who provide notice by February 15th of each year and who at the time of application are eligible to take service under Schedule 1823 (Stepped Rate) at the energy charge rates set out in Part B of the Rate section of that Schedule, and who have entered into a TOU (Transmission Service) Agreement by March 15th of that year. Customers will start service under Schedule 1825 as of the Billing Period that starts closest to April 1st.

Applicable in: Rate Zone 1 excluding the Districts of Kingsgate-Yahk and Lardeau-Shutty Bench.

Rate: Demand Charge: \$~~5.0364.726~~ per kV.A of Billing Demand per Billing Period

Billing

Demand:

The Demand for billing purposes shall be:

1. the highest kV.A Demand during the High Load Hours (HLH) in the Billing Period; or
2. 75% of the highest Billing Demand for the Customer's Plant in the immediately preceding period of November to February, both months included; or
3. 50% of the Contract Demand stated in the Electricity Supply Agreement for the Customer's Plant,

whichever is the highest value.

The HLH period is defined as the hours from 06:00 to 22:00 Monday to Saturday, except for Statutory Holidays.

The LLH period is defined as all other hours.

Statutory Holidays for the purpose of this Schedule are New Years Day, Good Friday, Victoria Day, Canada Day, B.C. Day, Labour Day, Thanksgiving Day, Remembrance Day and Christmas Day.

Energy Charge:

Winter HLH Period

2.~~462477~~ ¢ per kW.h applied to all kW.h up to and including 90% of the Customer's Winter HLH Period CBL.

~~8.2136.120~~ ¢ per kW.h applied to all kW.h above 90% of the Customer's Winter HLH Period CBL.

The Winter Period is the 4 Billing Periods starting with the first day of the Billing Period which commences nearest to November 1st each year and ending on the last day of the 4th Billing Period thereafter.

Winter LLH Period

2.~~462477~~ ¢ per kW.h applied to all kW.h up to and including 90% of the Customer's Winter LLH Period CBL.

~~7.4435.403~~ ¢ per kWh applied to all kW.h above 90% of the Customer's Winter LLH Period CBL.

The Winter Period is the 4 Billing Periods starting with the first day of the Billing Period which commences nearest to November 1st each year and ending on the last day of the 4th Billing Period thereafter.

Spring Period

2.~~462477~~ ¢ per kW.h applied to all kW.h up to and including 90% of the Customer's Spring Period CBL.

~~6.6294.602~~ ¢ per kW.h applied to all kW.h above 90% of the Customer's Spring Period CBL.

The Spring Period is the 2 Billing Periods starting with the first day of the Billing Period which commences nearest to May 1st each year and ending on the last day of the 2nd Billing Period thereafter.

Remaining Period

2.~~462.477~~ ¢ per kW.h applied to all kW.h up to and including 90% of the Customer's Remaining Period CBL applicable.

~~7.2695.403~~ ¢ per kW.h applied to all kW.h above 90% of the Customer's Energy CBL applicable in the Billing Period.

The Remaining Period is all Billing Periods that are not within the Winter months or the Spring months.

Customer Baseline Load: The Customer Baseline Load (CBL) is the Customer's historic consumption (in kW.h) as approved by the British Columbia Utilities Commission. For purposes of this Schedule, the Customer's CBL will consist of four separate CBLs – one each for the Winter HLH Period, the Winter LLH Period, the Spring Period and the Remaining Period. The Customer's CBL will initially be determined by B.C.Hydro, and be subject to revision from time to time, in accordance with the criteria and procedures set forth in BC Hydro's "Customer Baseline Load (CBL) Determination Guidelines". All CBL's will be subject to final approval of the British Columbia Utilities Commission.

Aggregation of Customer Baseline Load: A Customer having two or more operating plants may elect to have a single aggregated CBL determined for all or any combination of its operating plants in accordance with the CBL Determination Guidelines. Separate Energy CBL values will be determined for each plant, and the values so determined will then be aggregated. Thereafter, BC Hydro will issue a single bill for all operating plants included in the aggregation, and the energy charge payable will be determined on the basis of the aggregated Energy CBL values. However, the Demand Charge will continue to be determined separately for each operating plant.

Energy Determination under Retail Access: If the Customer has entered into a Retail Access Program Agreement that is in effect, the quantity of Schedule 1825 energy is defined as the total metered kW.h consumption of the Customer's Plant less the Net Scheduled Output. This calculation is done separately for the HLH and LLH periods in the Winter Months. The Net Scheduled Output is the Gross Scheduled Output adjusted by the Energy Loss Adjustment Factor of 6.28%. The Net Scheduled Output and the Gross Scheduled Output are as defined in the Retail Access Program Agreement. If the Net Scheduled Output is greater than the total metered kW.h consumption of the Customer's Plant, then the quantity of Schedule 1825 energy is zero.

Definitions: Statutory Holidays for the purpose of this Rate Schedule are New Years Day, Good Friday, Victoria Day, Canada Day, B.C. Day, Labour Day, Thanksgiving Day, Remembrance Day, and Christmas Day.

Special Conditions: 1. Service under this rate schedule will be provided only while the TOU (Transmission Service) Agreement is in effect.

2. If any initial, revised, or aggregate CBL for a Customer has not been determined by BC Hydro and approved by British Columbia Utilities Commission by the time the CBL would become effective, BC Hydro may determine the CBL on an interim basis, and apply the CBL so determined for purposes of any Billing Periods and bills rendered to the Customer until such time as the CBL has been finally determined and approved by the British Columbia Utilities Commission, whereupon BC Hydro will make any necessary billing adjustments.
3. In accordance with the TOU (Transmission Service) Agreement, the Customer will have a period of 30 days following approval of the Customer's initial CBL by the British Columbia Utilities Commission within which the Customer may, by written notice to BC Hydro, withdraw from taking service under this Schedule, and revert to taking service under Schedule 1823 (Stepped Rate) instead. This right of withdrawal is available only when the Customer first subscribes to take service under this Schedule, and is applicable only in respect of the initial CBL determination. If the Customer exercises this right of withdrawal Schedule 1823 will apply from the commencement of the Billing Year, and BC Hydro will make any necessary billing adjustments.
4. Customers taking service under Schedule 1852 may not also take service under this Schedule.

Note: The terms and conditions under which service is supplied are contained in the Electricity Supply Agreement (Electric Tariff Supplement 5) as amended by the TOU (Transmission Service) Agreement (Electric Tariff Supplement 70).

Rate Rider: The Deferral Account Rate Rider as set out in Rate Schedule 1901 applies to all charges payable under this Rate Schedule, before taxes and levies.

Rate Schedule 1880

SCHEDULE 1880 – TRANSMISSION SERVICE – STANDBY AND MAINTENANCE SUPPLY

Availability: For Customers supplied with Electricity under Schedules 1823, 1825, 1827, and 1852 subject to the Special Conditions below.

Applicable in: Rate Zone I excluding the Districts of Kingsgate-Yahk and Lardeau-Shutty Bench.

Rate: The Rate per Period of Use shall be:

Administrative Charge:

\$150.00 per Period of Use

Energy Charge:

For each hour during the Period of Use the Energy Charge is the Schedule 1880 Energy metered consumption (in kW.h) multiplied by ~~7.3605-400~~¢ per kW.

Period of Use: A period of consecutive hours during which Electricity is taken under this Schedule which may extend into subsequent Billing Periods. The Period of Use is as defined by the Customer when making the request to BC Hydro for service under Schedule 1880.

Reference Demand: The HLH Reference Demand is defined as the highest kV.A Demand in the HLH for the current Billing Period prior to the Period of Use excluding any prior Period of Use. If the Period of Use extends over an entire Billing Period, the highest kV.A Demand in the HLH from the prior Billing Period will be used in determining the HLH Reference Demand, excluding any Period of Use in the prior Billing Period.

For the purpose of the Reference Demand, the HLH periods are as defined per Schedule 1823, 1825, 1827 or 1852, whichever is applicable.

Schedule 1880 Energy Determination During the HLH periods, on an hourly basis, the kW.h consumption which exceeds the HLH High kW.h/hr within the Period of Use, or portion thereof.

The HLH High kW.h/hr is defined as the product of the HLH Reference Demand multiplied by the Power Factor for the half hour when the HLH Reference Demand occurred.

For the purpose of the Schedule 1880 Energy Determination, the HLH periods are as defined per Schedule 1823, 1825, 1827 or 1852, whichever is applicable.

Special
Conditions:

1. BC Hydro agrees to provide Electricity under this Schedule to the extent that it has energy and capacity to do so.
2. BC Hydro may, without notice to the Customer, terminate the supply of Electricity under this Schedule if at any time during the Period of Use BC Hydro does not have sufficient energy or capacity.
3. This Schedule is only for the following purposes:

To provide Electricity which the Customer would otherwise generate when all or part of the Customer's electrical generating plant is curtailed.

Electricity used for this purpose may be taken on an instantaneous basis when the impact of the instantaneous pickup of loads normally provided by the Customer's electrical generation units does not occur after BC Hydro has advised the Customer that a period of system constraint or potential system constraint exists.

During periods of potential system constraints, BC Hydro will require Customers to arm load shedding relays to ensure that the loss of Electricity production from a Customer's electrical generation unit will not result in a demand greater than the Customer's Maximum kV.A Demand on BC Hydro's system. BC Hydro may require the Customer to provide it with control of these load shedding relays. During periods of potential system constraints, upon a Customer's request, BC Hydro will endeavour to provide Electricity normally provided by the Customer's electrical generation unit.

The Customer is required to advise BC Hydro within 30 minutes of taking energy under this schedule for this purpose. If the Customer fails to advise BC Hydro the subsequent measured demand and energy will be billed under Rate Schedule 1823, 1825, 1827 or 1852, whichever is applicable.

4. Electricity taken under this Schedule shall not displace Electricity otherwise to be taken by this Customer under Schedule 1823, Schedule 1825, Schedule 1827 or Schedule 1852.

Electricity taken under this Schedule shall not displace Electricity

that would normally be generated by the Customer for the purpose of re-sale.

5. In addition to the charges specifically set out in this Schedule, the Customer shall pay for any additional facilities required to deliver Electricity under this Schedule provided that BC Hydro obtains the prior consent of the Customer for construction of the additional facilities.
6. A Customer may be required to allow BC Hydro to install metering and communication equipment to measure the electricity output of the Customer's self-generation unit.
7. BC Hydro will bill for Electricity taken under Schedule 1880 at the same time it bills for Electricity taken under Schedule 1823, 1825, 1827 or 1852, whichever is applicable.

Note: The terms and conditions under which transmission service is supplied are contained in Electric Tariff Supplements 5 and 6.

Rate Rider: The Deferral Account Rate Rider as set out in Rate Schedule 1901 applies to all charges payable under this Rate Schedule, before taxes and levies.

Rate Schedule 1890

SCHEDULE 1890 – TRANSMISSION SERVICE – ENERGY IMBALANCE

Availability: For Customers supplied with Electricity under Schedule 1823 and 1825 who have entered into a Retail Access Program Agreement which is in effect, subject to the Special Conditions below.

Applicable in: Rate Zone I excluding the Districts of Kingsgate-Yahk and Lardeau-Shutty Bench.

Energy Charge /
Credit: Winter Months

The Energy Charge / Credit is the sum of (i) the HLH Energy Imbalance Price times the HLH Incremental Energy, and (ii) the LLH Energy Imbalance Price times the LLH Incremental Energy.

Remaining Months

The Energy Charge / Credit is the Energy Imbalance Price times the Incremental Energy.

The Energy Charge / Credit is a charge to the Customer if the sum is greater than zero, and a credit to the Customer if the sum is less than zero.

Winter months are the 4 Billing Periods starting with the first day of the Billing Period, which commences nearest to November 1st each year, and ending on the last day of the 4th Billing Period thereafter. Remaining months are Billing Periods that are not within the Winter months.

Incremental Energy means:

An amount of energy equal to the Net Scheduled Output in a Billing Period minus the Net Actual Output in that Billing Period. For the Winter Months, this calculation is done separately for the HLH and LLH periods within a Billing Period.

Incremental Energy may, for each Billing Period, and, where applicable, for the HLH and LLH in a Billing Period, have a value greater than or less than zero. The terms Net Scheduled Output and the Net Actual Output are as defined in the Retail Access Program Agreement.

<u>Energy Imbalance Price:</u>	<u>Pricing Period</u>	<u>Tier 1 Price (¢ / kW.h)</u>	<u>Tier 2 Price (¢ / kW.h)</u>
	Mar to Apr	2.4 6277	7.2695-403
	May to June	2.4 6277	6.6294-602
	July to Oct	2.4 6277	7.2695-403
	Nov to Feb	2.4 6277	8.2136-420 7.4435-403
			(HLH) (LLH)

Pricing Period as used in the table above means (i) for the Winter months, the HLH or LLH as applicable, and (ii) for the Remaining months, all hours in the Billing Period.

Where the Incremental Energy is a positive number, the Energy Imbalance Price is the Tier 2 Price, for the respective Pricing Period.

Where the Incremental Energy is a negative number, for Incremental Energy between 0% and -10% of the Net Scheduled Output, the Energy Imbalance Price is the Tier 2 Price for the respective Pricing Period. For Incremental Energy less than -10% of the Net Scheduled Output, the Energy Imbalance price is the Tier 1 Price.

The HLH period is defined as the hours from 06:00 to 22:00 Monday to Saturday, except for Statutory Holidays. The LLH period is defined as all other hours.

Statutory Holidays for the purpose of this Schedule are New Years Day, Good Friday, Victoria Day, Canada Day, B.C. Day, Labour Day, Thanksgiving Day, Remembrance Day, and Christmas Day.

Special Conditions:

1. If the Customer's metered consumption in any Billing Period is less than the aggregate Net Actual Output of all Third Party Retail Suppliers listed in Appendix 1 to the Customer's Retail Access Program Agreement during that Billing Period, no Energy Imbalance charge is payable for that Billing Period. For the Winter Months, this determination is done separately for the HLH and LLH periods within a Billing Period.
2. Energy Imbalance service under this Schedule is available for Retail Access energy delivered by BCTC provided that the Customer authorizes BCTC to provide the hourly energy schedule booked with BCTC to BC Hydro, for billing purposes.

Note: The terms and conditions under which transmission service is supplied are contained in Electric Tariff Supplements 5 and 6.

Rate Rider: The Deferral Account Rate Rider as set out in Rate Schedule 1901 applies to all charges payable under this Rate Schedule, before taxes and levies.

APPENDIX C

Tier 1 and Tier 2 Rates for the Transmission Service Time of Use Rate (RS1825)

The TOU Tier 2 Rates on an annual weighted average basis are equal to the RS 1823 Tier 2 Rate. The TOU Tier 2 Rates were updated to equal \$73.60/MWh on an annual weighted-average basis by using the following method.

The monthly Mid-Columbia price shape for Heavy Load Hour (HLH) and Light Load Hour (LLH) periods used in the F2006 CFT, (BC Hydro Report on the F2006 CFT Process, August 31, 2006, Appendix D, page 51) were used to calculate monthly HLH and LLH prices. The monthly HLH (or LLH) price (\$/MWh) is equal to the HLH (or LLH) percentage for the month shown in the table below multiplied by \$73.60/MWh. Because of rounding, these prices were scaled by .23 per cent so that they equal \$73.60/MWh on an annual average-weighted basis. The following table shows the Mid-Columbia price shape and derived monthly prices after scaling.

	<u>6x16</u>	<u>6x8+24</u>	\$/MWh	\$/MWh
	HLH (%)	LLH (%)	HLH	LLH
January	113	97	83.36	71.56
February	109	102	80.41	75.24
March	105	100	77.46	73.77
April	103	88	75.98	64.92
May	104	73	76.72	53.85
June	104	71	76.72	52.38
July	104	77	76.72	56.80
August	104	97	76.72	71.56
September	105	98	77.46	72.29
October	103	89	75.98	65.65
November	106	104	78.19	76.72
December	117	101	86.31	74.51

Seasonal prices for the Tier 2 Rate were derived by weighting the monthly prices by the number of hours in each month and then by calculating the average price for each season. The first step in this process is to multiply the number of hours in each month by the monthly price to obtain the monthly weighted price by hours as shown in the table below.

	Prices \$/MWh		Number of hours		Weighted Price by hours = Price x Number of Hours	
	HLH	LLH	HLH	LLH	HLH	LLH
January	83.36	71.56	400	344	33,343	24,615
February	80.41	75.24	384	288	30,876	21,670
March	77.46	73.77	432	312	33,461	23,016
April	75.98	64.92	416	303	31,608	19,670
May	76.72	53.85	400	344	30,688	18,525
June	76.72	52.38	416	304	31,915	15,922
July	76.72	56.80	416	328	31,915	18,631
August	76.72	71.56	416	328	31,915	23,470
September	77.46	72.29	400	320	30,983	23,134
October	75.98	65.65	416	329	31,608	21,600
November	78.19	76.72	400	320	31,278	24,550
December	86.31	74.51	416	328	35,905	24,438

The second step is to sum both the weighted price by hours and the number of hours by seasons, which are reported in the table below. January, February, November and December are considered winter months, and May and June are considered spring months. All other months are in the remainder season. Note that for the spring and remainder seasons there is no price differentiation by time of day and for these seasons a total seasonal price is calculated which covers all hours. The average Tier 2 rate by season is calculated by dividing the total weighted rate by hours by season by the total number of hours by season, as shown in the table below.

	Total Weighted Rate by hours by Season		
	HLH	LLH	Total
Winter	131,402	95,273	226,675
Spring			97,050
Remainder			321,011
	Total Number of Hours by Season		
	HLH	LLH	Total
Winter	1,600	1,280	2,880
Spring			1,464
Remainder			4,416
			8,760
	Average Tier 2 Rate by Season (MWh)		
	HLH	LLH	
Winter	82.13	74.43	
Spring			66.29
Remainder			72.69

The table below shows that the annual average of the seasonal Tier 2 Rates is equal to 7.360 cents/kWh. This is obtained by dividing the total weighted seasonal Tier 2 Rates by hours, 64,473.7, by 8760, the total number of hours in a year. The Tier 1 Rate is set equal to the Tier 1 Rate for RS1823 for all CBL periods. The Tier 1 Rate from Appendix A is used for illustration. The table shows that when the Tier 1 and Tier 2 Rates are weighted by the number of hours in the year and blended on a 90/10 basis, the annual overall weighted average price in the TOU Rate is the same as the single price in the Exempt Rate RS 1827 (2.952 cents/kWh).

	Number of hours	Tier 1 Rate (c/kWh)	Tier 2 Rate (c/kWh)	Weighted Tier 1 Rate by hours = Number of Hours x Tier 1 Rate	Weighted Tier 2 Rate by hours = Number of hours x Tier 2 Rate
Winter HLH	1600	2.462	8.213	3,939.2	13,140.2
Winter LLH	1280	2.462	7.443	3,151.4	9,527.3
Spring	1464	2.462	6.629	3,604.4	9,705.0
Remainder	4416	2.462	7.269	10,872.2	32,101.2
Total	8760			21,567.1	64,473.7
Annual average Tier 2 Rate = $[64,473.7/8760] = 7.360$ c/kWh					
Average annual price = $[90\% \text{ Weighted Tier 1 Rate by hours} + 10\% \text{ Weighted Tier 2 Rate by hours}]/8760$					$= [.90 \times 21,567.1 + .10 \times 64,473.7]/8760$ $= [19,410.4 + 6,447.4]/8760$ $= 2.952$

APPENDIX D

Draft Orders

Draft Interim Order



IN THE MATTER OF
the *Utilities Commission Act*, R.S.B.C. 1996, Chapter 473

and

An Application by British Columbia Hydro and Power Authority (BC Hydro)_
For Orders
Varying the Pricing of Rate Schedules 1823, 1825, 1880 and 1890

BEFORE: _____, Commissioner _____, 2008

**DRAFT
INTERIM
O R D E R**

WHEREAS:

- A. On February, 22, 2008 BC Hydro applied for interim and final orders regarding the pricing of certain rate schedules applicable to its transmission service customers, to reflect the cost of new supply as indicated by the results of its F2006 Call for Tender process (the TSR Re-pricing Application).
- B. The rate schedules that were the subject of the TSR Re-pricing Application are RS 1823 (Stepped Rate); RS 1825 (Time of Use or "TOU" Rate); RS 1880 (Standby and Maintenance Supply Rate); and RS 1890 (Energy Imbalance Rate).
- C. Each of the rate schedules that are the subject of the TSR Re-pricing Application have rates that are either set on the basis that they ought to reflect BC Hydro's cost of new supply (Tier 2 Rates), or are calculated residually in accordance with the pricing mechanism of the respective rate schedule (Tier 1 Rates).
- D. On February 20, 2008 BC Hydro filed its F2009/F2010 Revenue Requirements Application (F09/F10 RRA), seeking interim rate relief as described therein. Also on February 20, 2008, BC Hydro applied

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-

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to the Commission for reconsideration of certain elements of its October 26, 2007 Decision regarding BC Hydro's Rate Design Application (Rate Rebalancing Reconsideration Application).

- E. INSERT SUMMARY OF PROCESS TO DATE OF ORDER
- F. On XXX the Commission issued decisions regarding BC Hydro's request for relief in the Rate Rebalancing Reconsideration Application, and for interim relief in the F09/F10 RRA.
- G. The Commission has reviewed BC Hydro's application, and considered the submissions of parties made in regard to it, and has concluded that the relief requested ought to be granted.

NOW THEREFORE the Commission orders, as follows:

1. The Tier 2 Rates shall be set on the basis of a cost of new supply of 7.36 cents/kWh, as applied for, on an interim basis, effective April 1, 2008.
2. The Tier 1 Rates shall be set to reflect the Commission's March __, 2008 interim order regarding the F09/F10 RRA and its March __, 2008 order regarding the Rate Rebalancing Reconsideration Application, on an interim basis, effective April 1, 2008.
3. BC Hydro shall file new rates schedules 1823, 1825, 1880 and 1890 reflecting paragraphs 1. and 2. above within __ days of this order.

DATED at the City of Vancouver, in the Province of British Columbia, this _____ day of _____ 2008

BY ORDER

Draft Final Order



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VANCOUVER, B.C. V6Z 2N3 CANADA
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IN THE MATTER OF
the *Utilities Commission Act*, R.S.B.C. 1996, Chapter 473

and

An Application by British Columbia Hydro and Power Authority (BC Hydro)_
For Orders
Varying the Pricing of Rate Schedules 1823, 1825, 1880 and 1890

BEFORE: _____, Commissioner _____, 2008

**DRAFT
FINAL
O R D E R**

WHEREAS:

- A. On February, 22, 2008 BC Hydro applied for interim and final orders regarding the pricing of certain rate schedules applicable to its transmission service customers, to reflect the cost of new supply as indicated by the results of its F2006 Call for Tender process (the TSR Re-pricing Application).
- B. The rate schedules that were the subject of the TSR Re-pricing Application are RS 1823 (Stepped Rate); RS 1825 (Time of Use or "TOU" Rate); RS 1880 (Standby and Maintenance Supply Rate); and RS 1890 (Energy Imbalance Rate).
- C. Each of the rate schedules that are the subject of the TSR Re-pricing Application have rates that are either set on the basis that they ought to reflect BC Hydro's cost of new supply (Tier 2 Rates), or are calculated residually in accordance with the pricing mechanism of the respective rate schedule (Tier 1 Rates).

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-

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- D. On February 20, 2008 BC Hydro filed its F2009/F2010 Revenue Requirements Application (F09/F10 RRA), The Tier 1 Rates can not be set on a final basis until the F09/F10 RRA has resulted n final orders.
- E. INSERT SUMMARY OF PROCESS TO DATE OF ORDER
- F. The Commission has reviewed BC Hydro's application, and considered the submissions of parties made in regard to it, and has concluded that the relief requested ought to be granted.

NOW THEREFORE the Commission orders, as follows:

1. The Tier 2 Rates shall be set on the basis of a cost of new supply of 7.36 cents/kWh, as applied for, on a final basis.
2. The current Tier 1 Rates shall remain interim pending the final resolution of BC Hydro's F09/F10 RRA, as applied for.
3. BC Hydro shall file new rates schedules 1823, 1825, 1880 and 1890 reflecting paragraph 1 above within 30 days of this order, and reflecting paragraph 2 within 30 days of the final orders arising from the F09/F10 RRA.

DATED at the City of Vancouver, in the Province of British Columbia, this _____ day of _____ 2008

BY ORDER

APPENDIX E

**Transmission Service Rate F2007 Annual Report
April 1, 2006 – March 31, 2007**



Joanna Sofield
Chief Regulatory Officer
Phone: (604) 623-4046
Fax: (604) 623-4407
regulatory.group@bchydro.com

February 25, 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)
Transmission Service Rate (TSR) Re-pricing Application (the Application)**

On February 22, 2008 BC Hydro filed the Application without Appendix E. Attached is Appendix E, Transmission Service Rate F2007 Annual Report, April 1, 2006 – March 31, 2007.

For further information please contact the undersigned.

Yours sincerely,

A handwritten signature in black ink, appearing to read "J. Sofield".

Joanna Sofield
Chief Regulatory Officer

c. BC Hydro 2007 Rate Design Application Intervenors, Project No. 3698455

Enclosure





Transmission Service Rate

F2007 Annual Report

April 1, 2006 – March 31, 2007

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Executive Summary

This is the first BC Hydro Transmission Service Rate Annual Report (TSR Annual Report) for the period commencing April 1, 2006 and ending March 31, 2007. This reporting period represents BC Hydro's fiscal year 2007 (F2007). The TSR Annual Report is specific to BC Hydro's transmission service customers and is being filed to comply with the Transmission Service Rate Application Negotiated Settlement Agreement (TSR NSA) which was approved by the British Columbia Utilities Commission (BCUC) on August 29, 2005 (BCUC Order No. G-79-05).

Rate Schedule 1823 (RS 1823, the Stepped Rate) is a rate designed primarily to elicit a customer demand side management (DSM) response and to be consistent with the retail access provisions of the TSR NSA. RS 1823 was designed to marry a conservation price signal with the unique complexities of large industrial operations and to create a level playing field for independent power producers (IPPs) to compete with BC Hydro for the customers' Tier 2 load. The rate was also designed to be revenue neutral at customer baseline load (CBL) consumption.

Based on actual F2007 results, on a preliminary basis, the rate appears to be encouraging energy conservation. A conservative estimate of the demand response during F2007 was evidenced by 428 GWh of DSM reported to BC Hydro by customers (F2007 Reported Customer DSM). BC Hydro believes that F2007 Reported Customer DSM was influenced by the Tier 2 Rate and Power Smart programs (enabling activities) working in combination. Power Smart enabling activities reflect the co-funding of specific initiatives, such as plant-wide energy audits and energy managers, to identify customer DSM investment opportunities. The Tier 2 Rate then provides the financial incentive to proceed.

The 428 GWh of F2007 Reported Customer DSM was part of the reduction in actual F2007 customer energy sales. However, there were many other non-DSM factors (such as market impacts, production and weather variability) that impacted electrical energy use by industrial customers and which contributed to the total reduction in energy sales. BC Hydro has not attempted to identify and verify every discrete event.

Energy revenue is a product of energy sales and energy price. Under RS 1823, any event that changes the relative price mix of Tier 1 and Tier 2 energy sales at any given annual

sales volume creates revenue impacts. Therefore, revenue neutrality will not be achieved on a forecast or actual basis as a natural consequence. Rather, there can only be a revenue gain or a revenue loss (revenue variance). CBL variance, load variance and energy price mix variance are the primary drivers of revenue variance. Further, there are different comparisons that can be made at different points in time that reflect the dynamic interplay between actual load, forecast load and the CBL. Revenue impacts arise from each comparison and give useful, but different, perspectives.

On a forecast basis, there was a \$7 million revenue gain relative to RS 1827. The gain was caused by the F2007/F2008 Revenue Requirements Application (F07/F08 RRA) forecast load being higher than the March 2006 CBL used to forecast energy revenue. This increased the forecast average RS 1823 energy sales price to \$28.97/MWh, which was higher than the RS 1827 flat price of \$27.70/MWh. The \$7 million revenue gain was incorporated into BC Hydro's F07/F08 RRA. As a result, BC Hydro's requested rates were lower for all customer classes.

On an actual basis, there was a \$49.6 million revenue loss relative to the revenue BC Hydro would have earned had all RS 1823 customers consumed at their Adjusted F2007 CBL level. To the extent that BC Hydro can accurately forecast its RS 1823 load, and know in advance what the final CBL and RS 1823 pricing will be, this revenue deficiency would be allocated across all customer classes.

From a further perspective, there was a \$20.2 million revenue loss relative to the revenue that would have been received under RS 1827. The revenue loss was caused by the reduction in actual energy sales relative to the Adjusted F2007 CBL used for billing purposes. The revenue loss reduced the average RS 1823 energy sales price to \$26.34/MWh, which was lower than the RS 1827 flat price of \$27.70/MWh.

Finally, BC Hydro calculates that there was a \$57.7 million revenue loss relative to the F07/F08 RRA forecast revenue. The loss was caused by actual load being 642 GWh lower than forecast load and by changes to the CBL that changed the price mix of Tier 1 and Tier 2 energy sales. The revenue loss was subsequently incorporated into BC Hydro's net income statement for F2007 and inherently borne by BC Hydro's shareholder. As a result, there was no cost-shift to other customer classes.

1. Introduction and Background

This section is an overview of the development of the 2005 Transmission Service Rate Application, starting with the Provincial Government's 2002 Energy Plan and ending in the Negotiated Settlement Agreement approved by the BCUC in August 2005. This section includes a summary of the Stepped Rate design and provides a review of the key rate design principles.

1.1 Introduction

BC Hydro provides electricity service to transmission service (large industrial) customers at transmission voltage (>60,000 volts). The transmission service customer class is dominated by forestry, mining, electrochemical and oil/gas processing facilities and represents approximately one third of BC Hydro's domestic electricity load. The customer electricity supply relationships are managed by BC Hydro Key Account Managers. Prior to April 2006, transmission service customers were served electricity under Rate Schedule 1821 (RS 1821). This rate had a fixed price per unit for all energy purchases (also known as a flat rate). As of April 1, 2006, and pursuant to direction from the Provincial Government and the BCUC, new transmission service rates were introduced. The transmission service rates are set out in Table 1 below:

Table 1 Summary of Transmission Service Rates

Rate Schedule	Rate Description	Effective Date
1821	Flat Rate (now cancelled)	Prior to April 2006
1823	Stepped Rate (replaced RS 1821 as default rate)	April 1, 2006
1823A	Flat Rate (equivalent to RS 1827)	April 1, 2006
1825	Time of Use rate	April 1, 2006
1827	Exempt Rate (equivalent to cancelled RS 1821)	April 1, 2006
1890	Energy Imbalance Rate (for Retail Access)	April 1, 2006

RS 1823 became the new default rate for transmission customers and is the primary focus of the TSR Annual Report. RS 1823 is a two-step (inclining block) rate which separates the

pricing of actual annual energy consumption relative to the customer CBL. The CBL is split into a 90 per cent pricing block (Tier 1 energy priced at the Tier 1 Rate) and a 10 per cent pricing block (Tier 2 energy priced at the Tier 2 Rate). The Tier 2 Rate is designed to reflect the long-term opportunity cost of new electrical energy supply. The current Tier 2 Rate of \$54/MWh was based on the weighted average price of energy contracts in the F2003 province-wide Green Power Generation Call. The intent of the Tier 2 Rate is to encourage customer electrical energy conservation and efficiency, incremental self-generation and to be consistent with the retail access provisions of the TSR NSA.

1.2 TSR Annual Report Structure

To review and understand the effectiveness of the Stepped Rate in achieving its objectives, the TSR Annual Report sets out a description and analysis of the first year results. The TSR Annual Report has three central themes: (1) Stepped Rate design; (2) impacts of conservation and efficiency; and (3) financial and cost-shifting impacts. In order to provide an informed perspective on each theme, the report is structured into six sections, as follows:

- 1 - Introduction and Background;
- 2 - Customer Baseline Load (CBL);
- 3 - Forecast Energy Consumption and Revenue;
- 4 - Actual Energy Consumption and Revenue;
- 5 - Customer Conservation and Efficiency; and
- 6 - Financial and Cost-shifting Impacts.

The TSR Annual Report does not examine the Time-of-use Rate (RS 1825), since no customers chose to use this rate during F2007. It also does not examine the Exempt Rate (RS 1827) since it has the same rate structure as the cancelled RS 1821. Further, no customers entered into Retail Access Program Agreements during F2007. Therefore, no customer used RS 1890 (energy imbalance for retail access customers).

1.3 2002 Energy Plan

The Provincial Government's 2002 Energy Plan set the stage for the implementation of new transmission service stepped rates. Policy Actions No. 14 and No. 21 proposed that a new stepped rate for transmission voltage customers be introduced in order to provide them with incentives to use electricity more efficiently, to self-generate and to create a level playing field for IPPs to compete with BC Hydro for the customer's Tier 2 load. The retail access purpose of the Stepped Rate is stated on page 30 of the 2002 Energy Plan:

Policy Action No. 14 (new): Under new rate structures, large electricity consumers will be able to choose a supplier other than the local distributor. New stepped pricing (see Conservation and Efficiency) will provide an incentive for large industrial or transmission rate customers to purchase from IPPs, or to self-generate, when they can do so less expensively than the utility's cost of new supply.

In March 2003, the Government issued Order in Council No. 0253 directing the BCUC to convene a public inquiry and provide recommendations relating to a Heritage Contract for BC Hydro's existing generation resources, and relating to stepped rates and transmission access. Following that directive, the BCUC issued Order No. G-23-03 directing BC Hydro to file by April 30, 2003 a proposal identifying, among other things, the design and terms and conditions for a stepped rate for its transmission customers.

1.4 BC Hydro's Proposal for a Transmission Stepped Rate

As directed, BC Hydro filed its proposal for a transmission stepped rate and in doing so adopted three guiding principles: (1) the stepped rate should be a mandatory tariff; (2) the stepped rate should be revenue neutral at historic consumption levels; and (3) the stepped rate should remain "margin neutral" at all consumption levels. The expression "revenue neutral" had been defined in the 2002 Energy Plan as revenue neutral at "existing consumption levels", on a customer basis.¹ That is, the rate was intended to cause no change in a customer's annual bill provided the customer continued to consume at its existing consumption level.

With this background, BC Hydro was of the view that the two most important policy choices to be made were the determination of the Tier 2 Rate and the percentage of CBL to be billed at the Tier 1 and Tier 2 Rates. BC Hydro proposed a 90/10 split between Tier 1 and Tier 2,

¹ Energy for Our Future – A Plan for B.C., November 2002, page 33.

and a Tier 2 Rate set at BC Hydro's opportunity cost, which would be a function of the market price of energy. BC Hydro advocated for a one-year forward Mid-C price, primarily to support its principle that the rate should be margin neutral and limit cost-shifting between customers. BC Hydro also proposed a 10 per cent deadband around the CBL, to maintain CBL stability for billing purposes, and to allow customers that responded to the price signal to retain their bill savings.

1.5 BCUC Stepped Rate Recommendations

On October 17, 2003 the BCUC issued its report and recommendations on the inquiry into the Heritage Contract and stepped rates.² After reviewing the submissions and evidence given by BC Hydro and intervenors, the BCUC came to the conclusion that the Tier 2 Rate should be set on a more long-term basis, rather than a short term price as proposed by BC Hydro. The BCUC believed that the Tier 2 Rate should be based on the long-term cost of acquiring actual new energy supply, defined with reference to BC Hydro's expected resource acquisition costs, and that such a rate would be more supportive of the 2002 Energy Plan objectives. The BCUC also stated that the principle of margin-neutrality, for the purpose of limiting cost-shifting, was not a necessary guide for the stepped rate design, and that it did not expect that an appropriately designed stepped rate would entail a significant risk of cost shifting.³ Finally, the BCUC agreed that the appropriate split between Tier 1 and Tier 2 was 90/10.

1.6 Special Direction No. HC2

After receiving the BCUC's Report and Recommendations regarding the Heritage Contract and Stepped Rates the Government issued Special Direction No. HC2 (HSD#2), effective April 1, 2004. With regard to the stepped rate design, HSD#2 states that in designing rates for BC Hydro's transmission customers, the BCUC must ensure that those rates are consistent with recommendations No. 8 to No. 15 in the BCUC's Heritage Contract Report. Several of those recommendations addressed directly the structure and design of the stepped rate. BCUC recommendation No. 8 (and the Government response submitted on December 18, 2003 to the BCUC) stated the following:

² An Inquiry into a Heritage Contract for British Columbia Hydro and Power Authority's Existing Generation Resources and Regarding Stepped Rates and Transmission Access: Report and Recommendations, October 17, 2003 (The Heritage Contract Report).

³ The Heritage Contract Report, Pages 58 and 59,

No.	BCUC Recommendation	Government Response
8	<p>That stepped rates be implemented according to the principles and considerations set forth in section 3. The principles are repeated below for convenience:</p> <ul style="list-style-type: none"> - the Tier 2 rate should reflect the long-term opportunity cost of new supply, where long-term is understood to include the acquisition cost required to obtain that supply; - the quantity of power being sold to industrial customers at Tier 1 of the stepped rate should be initially set at 90 per cent, and the Tier 2 quantity should make up the remaining 10 per cent (the Tier 1/Tier 2 Split); and - the Tier 1 rate should be derived from the Tier 2 rate and the Tier 1/Tier 2 Split to achieve, to the extent reasonably possible, revenue neutrality. 	<p>Accepted. Further, the prospective Tier 2 rate should be published periodically, even if no change is being made to the actual rate charged, for the purpose of providing a public benchmark against which others can make investment decisions on conservation or alternative supply. The Tier 2 rate will reflect the cost of new supply more closely than would be the case if it were based on market indexes (Mid-C market). The Tier 1/Tier 2 Split provides a good balance between providing incentives and imposing unnecessary hardship.</p>

In addition, Recommendation No. 10 from the BCUC report stated that “ the initial determination of the stepped rates and time-of-use rates be based on the same revenue requirement used for determination of the Rate Schedule 1821 rates.” Finally, Recommendation No. 12 stated that “the Customer Baseline Load (“CBL”) used for applying stepped rates to industrial customers should be based on past experience adjusted for anomalies and reviewed annually”.

1.7 BC Hydro’s 2005 Transmission Service Rate Application

In March 2005, BC Hydro filed with the BCUC its TSR Application which contained its stepped rate proposal. In its TSR Application, BC Hydro stated that:

Revenue neutrality means that if the stepped rate customer does not change its usage relative to its Customer Baseline Load (CBL), the customer’s bill should remain unchanged after the implementation of the stepped rate.

As noted, this definition of revenue neutrality had its genesis in the 2002 Energy Plan. Consistent with HSD#2, BC Hydro proposed a 90/10 split between Tier 1 and Tier 2 and a Tier 2 Rate (based on the F2003 Green Power Generation Call) of 5.400 cents/kWh and a Tier 1 Rate of 2.428 cents/kWh (designed to be revenue neutral if the customer did not change its usage relative to its CBL). BC Hydro proposed that the Tier 2 Rate be updated after one year. BC Hydro also proposed that the initial CBL be based on the customers’ calendar 2005 energy use, with adjustments made for missing data, force majeure events,

equipment additions and DSM investments. Finally, it proposed a 10 per cent deadband around the CBL.

1.8 Negotiated Settlement Agreement

In May 2005, a negotiated settlement process was undertaken for the review and approval of BC Hydro's TSR Application. The TSR NSA on the proposed structure and pricing of the stepped rate was approved by the BCUC on August 29, 2005. Among other things, the TSR NSA allowed for customers to request adjustments to their CBL for events outside of those defined in the CBL Determination Guidelines that had been filed for approval with the TSR Application. The TSR NSA also stated that the earliest BC Hydro could reset the Tier 2 Rate would be April 1, 2008, at which time it could be reset to reflect the most appropriate Call for Energy price. Finally, the TSR NSA set out that BC Hydro would file an annual report with the BCUC, as follows:

BC Hydro commits to filing a public Annual Report with the Commission regarding new rate schedules 1823, 1825 and 1827. Those Annual reports will provide information on the aggregate CBLs and load for customers on RS 1823 and 1825, CBL adjustments pursuant to the CBL Determination Guidelines, the estimated impact on conservation and energy efficiency, and any public information regarding economic expansion of customers' facilities. The Annual Reports shall set out an analysis by BC Hydro relating to any potential for or actual cost shifts to or from other customer classes, including those arising from the basis upon which the Tier 2 rate is set, in recognition of the general intent of Recommendation No. 13 of the Heritage Inquiry Report and Recommendations. Parties may make submissions to the Commission based on those Annual Reports.

Further, with regard to BC Hydro's F07/F08 RRA, BCUC Order No. G-143-06 approved the Negotiated Settlement Agreement arising from that application (the F07/F08 RRA NSA).

Item 35 of the F07/F08 RRA NSA states:

BC Hydro will, in its first annual report regarding stepped rates (arising from the negotiated settlement of BC Hydro's stepped rate application), address the level and impact of DSM incentives for BC Hydro's stepped rate customers.

1.9 Stepped Rate Implementation Overview

The Stepped Rate was implemented on April 1, 2006. Key implementation efforts included: CBL development and adjustment review; CBL regulatory filings; customer education and relationship management; electricity acquisition (DSM); and substantive changes to the transmission billing system. Chapter 2 provides a comprehensive overview of the CBL development and adjustment review process, together with BC Hydro's associated CBL filings. Chapter 5 speaks to customer conservation that was reported to BC Hydro and that informs BC Hydro's electricity acquisition efforts.

With respect to the transmission billing system, detailed changes to the invoicing for both RS 1823 energy sales and kVA demand were required, together with changes to the calculation of energy purchases under RS 1880 (*ad hoc* power rate for customers with self-generation). The billing system needed to be sufficiently flexible to adapt to changing CBLs that retroactively impacted the invoiced mix of Tier 1 and Tier 2 energy sales. Changes to the transmission billing system also had flow-through impacts on internal BC Hydro financial reporting.

2. Customer Baseline Load

This chapter provides a roadmap to the development of the CBL for transmission service customers, starting with actual calendar 2005 energy consumption and ending with a description of the aggregate F2007 CBL adjustments made upon CBL annual review at the end of F2007. The CBL adjustment process is complex and this chapter includes a description of the CBL adjustment process, together with a summary of BC Hydro's CBL applications to the BCUC.

2.1 CBL Determination Process

At the commencement of the F2007 billing year, there was a total of 108 individual customer sites eligible to be served under RS 1823 and that required a CBL for F2007. (As of April 1, 2006 a further ten transmission service customers did not require a CBL: four customer sites were approved for billing under RS 1827; and six customer sites were approved for billing under RS 1823A⁴). Actual calendar year 2005 energy consumption (2005 CBL) was the CBL starting point for each of the 108 customer sites.

Individual customer CBLs for F2007 were determined by adjusting the 2005 CBL in accordance with BC Hydro's CBL Determination Guidelines and BC Hydro's CBL Adjustment Tariff Practices (Tariff Practices). The CBL Determination Guidelines and Tariff Practices contemplate specific events that serve as adjustments to the 2005 CBL. The governing principle was to replicate, to the extent possible, the electrical energy consumption that "would have" been seen at the BC Hydro meter had the adjustment event not occurred. The purpose of the adjusted 2005 CBL was to be representative of normal historic annual electricity purchases from BC Hydro.

Table 2 describes eligible CBL adjustment categories pursuant to the CBL Determination Guidelines and Tariff Practices. Adjustment events that increase the 2005 CBL are "credits". Adjustment events that decrease the 2005 CBL are "debits".

⁴ RS 1823A is applicable to new customers, to customers who were served under RS 1821 for less than twelve months in calendar 2005, and to customers experiencing significant plant capacity increases. RS 1823A applies a flat energy charge equal to that charged under RS 1827, the exempt rate.

Table 2 2005 CBL Adjustment Categories

	2005 CBL impact
Customer-funded DSM projects	credit
Customer buy-back of a BC Hydro DSM project incentive	credit
Force majeure	credit
Plant capacity increases	credit
Load curtailment events	credit
Plant restarts	credit
Variable electricity output generation	credit
Significant recurring downtime	credit
BC Hydro funded DSM projects	(debit)
Plant down-sizing with a new Electricity Service Agreement	(debit)

2.2 Summary of F2007 CBL Application Filings

On March 17, 2006, BC Hydro filed its TSR CBL Application which sought approval from the BCUC of the F2007 CBLs for each stepped rate customer on an interim basis. At that time, BC Hydro was still in the process of reviewing customer requests for adjustments to their 2005 CBLs and anticipated completing those adjustments by May 31, 2006.

BC Hydro filed a final CBL application on June 16, 2006. However, in that application it informed the BCUC that BC Hydro had been unable to finalize all F2007 CBLs and requested approval to file the remaining CBLs by June 30, 2006.

On June 30, 2006, BC Hydro filed the remaining F2007 CBLs and indicated that six CBLs were being disputed by customers and proposed a written process for resolving the disputes. A written process was directed by BCUC Order No. G-92-06 on July 28, 2006 and took place between August 11, 2006 and September 22, 2006. During the course of the written hearing, agreement was reached with respect to four of the six disputed F2007 CBLs.

On November 8, 2006 the BCUC issued Order No. G-138-06 which approved all of the final customer F2007 CBL's, and settled the dispute with the two remaining outstanding CBLs (on January 18, 2007 the BCUC also issued Letter L-2-07 which amended two of the previously approved F2007 CBLs). The BCUC also set out a further written process for

comments on BC Hydro's Tariff Practices, which had been developed as a result of the disputed CBLs and which were intended to be used to provide guidance in applying the CBL Determination Guidelines with respect to future CBL adjustment requests. Finally, on December 7, 2006 the BCUC issued Order No. G-156-06 approving the Tariff Practices.

2.3 F2007 CBL Approval Summary

Table 3 is a summary of the aggregate CBL adjustments (by category) that were reflected in the Approved F2007 CBLs. The total unadjusted 2005 CBLs (start point) were 15,375 GWh. The total Approved F2007 CBLs (end point) were 15,946 GWh. The net CBL adjustment credit to actual calendar 2005 energy consumption was 571 GWh.

Table 3 Summary of Approved F2007 CBL Adjustments

	GWh
Calendar Year 2005 Energy Consumption = 2005 CBL	15,375
Customer-funded DSM projects	165
Customer buy-back of a BC Hydro DSM project incentive	2
Force majeure	34
Plant capacity increases	385
Load curtailment events	0.2
Plant restarts	56
Variable electricity output generation	36
Significant non-recurring downtime	55
BC Hydro funded DSM projects	(4.0)
Plant down sizing with a new Electricity Service Agreement	(158)
Approved F2007 CBL (Order No. G-138-06 and L-2-07)	15,946

2.4 Approval Rationale for CBL Adjustment Credits and Debits

Each CBL adjustment credit is based on the premise that 2005 CBL consumption was reduced by specific, known events. Events of force majeure, load curtailment and non-recurring downtime were identified as adjustment credits because these events were not deemed to occur within a normal, future operating year. CBL adjustment credits for customer-funded DSM projects and customer buy-backs of BC Hydro DSM projects were

provided to ensure that the customer was not penalized for making prior DSM investments. Further, CBL adjustment credits for increases in plant capacity were designed to ensure that a customer was not penalized for making investments in economic expansion. Finally, CBL adjustment credits were provided to take into consideration the estimated full-year impact that plant restarts and variable output generation had on 2005 CBL consumption.

Conversely, downward CBL adjustments (debits) were made to 2005 CBL consumption for BC Hydro funded DSM projects, based on the principle that customers should not receive the benefit of lower Tier 1 energy due to DSM projects that were co-funded by BC Hydro. CBL adjustment debits were also made for plant downsizing, to reflect that future consumption would be permanently reduced through the plant size reduction.

2.5 F2007 CBL Annual Review and F2007 CBL Adjustments

Each customer CBL remains subject to review and revision at the end of each billing year, and at other times, to reflect long-term changes that impact electricity purchases. To this end, the CBL Determination Guidelines contemplate both intra-year and end-of-year (annual) adjustments. BC Hydro did not make intra-year CBL adjustments beyond those contemplated in the CBL Determination Guidelines. The following is a summary of the F2007 CBL annual review process that was conducted by BC Hydro at the end of the F2007 billing year and the F2007 CBL adjustments that resulted.

2.6 F2007 CBL Statement of Account

BC Hydro Key Account Managers worked in partnership with customers to identify and define DSM projects, plant capacity changes and other significant events (such as force majeure) that impacted F2007 electrical energy consumption. The governing principle was to replicate, to the extent possible, the electrical energy consumption that “would have” been seen at the BC Hydro meter had the event not occurred. This information was used to prepare a detailed summary of annual account activity (F2007 CBL Statement of Account) for each individual customer site. F2007 CBL Statements of Account were prepared for each customer and sent to customers for review, comment and verification as per section 6.2.1 of the CBL Determination Guidelines. Eligible CBL adjustments identified in the F2007 CBL Statement of Account were then subject to BC Hydro review and verification.

Table 4 Summary of F2007 CBL Adjustments made upon F2007 CBL Annual Review

	GWh
Approved F2007 CBL	15,946
Net M&V ⁵ change to customer-funded DSM projects	0.8
New plant capacity increases	3.7
Net M&V change to BC Hydro funded DSM projects	(4.6)
New BC Hydro funded DSM projects completed during F2007	(3.2)
Net F2007 CBL pro-ration due to F2008 site aggregation	(3.8)
Amount of CBL removed to effect transfer to RS1823A	(22.8)
Adjusted F2007 CBL	15,916

Table 4 above is a summary of the F2007 CBL adjustments made to the Approved F2007 CBLs, pursuant to the CBL Determination Guidelines and Tariff Practices. Each CBL adjustment category is described below.

2.7 F2007 CBL Adjustment Category Summary

2.7.1 Net M&V Savings Change to Customer-funded DSM Projects

Reference: CBL Determination Guidelines, sections 4.1.2.1.3 and 6.1.1

This category includes net CBL adjustments to customer-funded DSM projects installed between November 25, 2002 and December 31, 2005 and that were already reflected in the Approved F2007 CBL. Each adjustment was premised on the completion of updated energy savings verification for each specific DSM project that was reviewed during F2007.

2.7.2 New Plant Capacity Increases

Reference: CBL Determination Guidelines, sections 3.1.4.4 and 6.1.2

This category includes net CBL adjustments for plant capacity increases commissioned between January 1, 2006 and March 31, 2007. The CBL increase was premised on a preliminary technical review and approval by BC Hydro of the increase in annual electrical energy consumption and remains subject to further impact study verification at a specified future date.

⁵ Measurement and Verification

2.7.3 Net M&V Savings Change to BC Hydro-funded DSM Projects

Reference: CBL Determination Guidelines, sections 4.1.2.1.3 and 6.1.1

This category includes CBL debit adjustments for BC Hydro-funded DSM projects installed prior to January 1, 2006 and that are already reflected in the Approved F2007 CBL. Each adjustment was premised on the completion of updated energy savings verification for each specific project that was reviewed during F2007.

2.7.4 New BC Hydro-funded DSM projects completed during F2007

Reference: CBL Determination Guidelines, sections 4.1.2.1.1 and 6.1.1

This category includes CBL debit adjustments for new BC Hydro-funded DSM projects installed at nine customer sites between January 1, 2006 and March 31, 2007. These projects represent prior Power Smart incentive agreement commitments that were realized during F2007. Customers had the option to terminate their prior incentive agreements in order to receive the electrical energy savings benefit as a reduction of Tier 2 energy purchases under RS 1823. No new direct capital incentives for DSM projects were offered to RS 1823 customers, effective April 1, 2006.

2.7.5 Net F2007 CBL Pro-ration due to Site Aggregation Changes

Reference: submitted to BCUC as new Tariff Practice on December 11, 2007

This category includes the net F2007 CBL adjustments made due to forthcoming F2008 customer CBL aggregation changes. The adjustments reflect individual customer CBLs that were pro-rated in order to address the movement of individual customer sites into new F2008 aggregations that utilized different annual billing start dates. BC Hydro staggers the monthly billing for transmission service customers to streamline invoice processing. Aggregation changes at the end of F2007, in preparation for F2008 billing, required F2007 CBL pro-ration of impacted customers to ensure that actual annual energy purchases could be compared with a representative annual CBL.

The described CBL Pro-ration was not specifically contemplated by the CBL Determination Guidelines, but was consistent with the overall rate design principles and the implicit recognition that BC Hydro cannot anticipate precisely all adjustments that may be justifiable within the tariff. In the December 11, 2007 filing regarding F2008 CBLs, BC Hydro requested approval for an amendment to the Tariff Practices to accommodate billing adjustments to CBLs related to customer site aggregation changes.

2.7.6 Amount of CBL removed to effect transfer to RS 1823A

Reference: CBL Determination Guidelines, section 6.1.2

This final category was in relation to three customers that applied to BC Hydro to transfer from RS 1823 to RS 1823A during F2007. The transfer requests were due to significant changes in plant capacity expected to result in energy consumption changes beyond the thresholds specified in the CBL Determination Guidelines, and that made estimating a new CBL impractical. The F2007 CBL was pro-rated to reflect the number of days in the billing year, prior to the transfer, under which the customer would be billed under RS 1823. RS 1823A transfers are subject to Commission review and approval and were included in the December 11, 2007 CBL filing.

2.8 Stepped Rates and Economic Expansion

Ten customers were placed on the blended rate (RS 1823A) during F2007 to accommodate significant capital investments in plant capacity increases/expansions and significant changes in electricity self-generation. Plant capacity expansions included the installation of new equipment, construction of greenfield facilities and re-commissioning of large horsepower motors. During F2007, customers involved in economic expansion of their facilities made application to BC Hydro for RS 1823A treatment until a new CBL could be established, or to request an initial CBL increase per the CBL Determination Guidelines.

A notable economic expansion commissioned in the final quarter of F2007 was the addition by Kinder Morgan Canada (previously Terasen Pipelines) of seven new pump stations to the Trans Mountain Pipeline system. This is the only B.C. pipeline that transports crude oil and refined products from the Alberta oil sands to marketing terminals and refineries in the Greater Vancouver area and Puget Sound. The expansion represents the addition of approximately 60 MW of new load.

2.9 CBL Determination and Adjustment Summary

The CBL determination process was new, complex and time-intensive. The review of each CBL adjustment request was dictated by timely access to accurate and detailed technical information. Each adjustment request required diligent application of the CBL Determination Guidelines and Tariff Practices to each unique customer circumstance. The adjusted 2005 CBL (commonly referred to as the Final 2005 CBL) was first prepared by BC Hydro for customer review and

verification. The Final 2005 CBL was then subject to BCUC review and approval, such that the approved Final 2005 CBL would become the Approved F2007 CBL.

It is noteworthy that not all F2007 customer CBLs were finalized by the April 1, 2006 stepped rates implementation date. As described in section 2.2, BC Hydro made three separate F2007 CBL application filings between March and June 2006. Final F2007 CBL approvals were made by the BCUC between November 2006 and January 2007. The resulting Approved F2007 CBL was effective retroactively to April 1, 2006 and used for initial F2007 billing purposes.

Subsequently, the Approved F2007 CBL was also subject to adjustment for eligible events that occurred during the F2007 billing year. Adjustments to the Approved F2007 CBL were made at the end of F2007 as part of the F2007 CBL annual review conducted by BC Hydro between April 2007 and October 2007. The F2007 CBL adjustments were then filed with the BCUC on October 5, 2007 and December 11, 2007, culminating in the approval of the Adjusted F2007 CBL and the F2008 CBL. The Adjusted F2007 CBL was applied retroactively to April 1, 2006 and used for actual F2007 billing purposes, the results of which are presented in this report.

Figure 1 below provides a roadmap of the CBL determination and adjustment process between the 2005 CBL and the F2007 CBL annual review, culminating in BCUC approval of the Adjusted F2007 CBL. The yellow shaded boxes signify key periods in time when aggregate customer CBLs were used for specific purposes.

Figure 1 CBL Roadmap

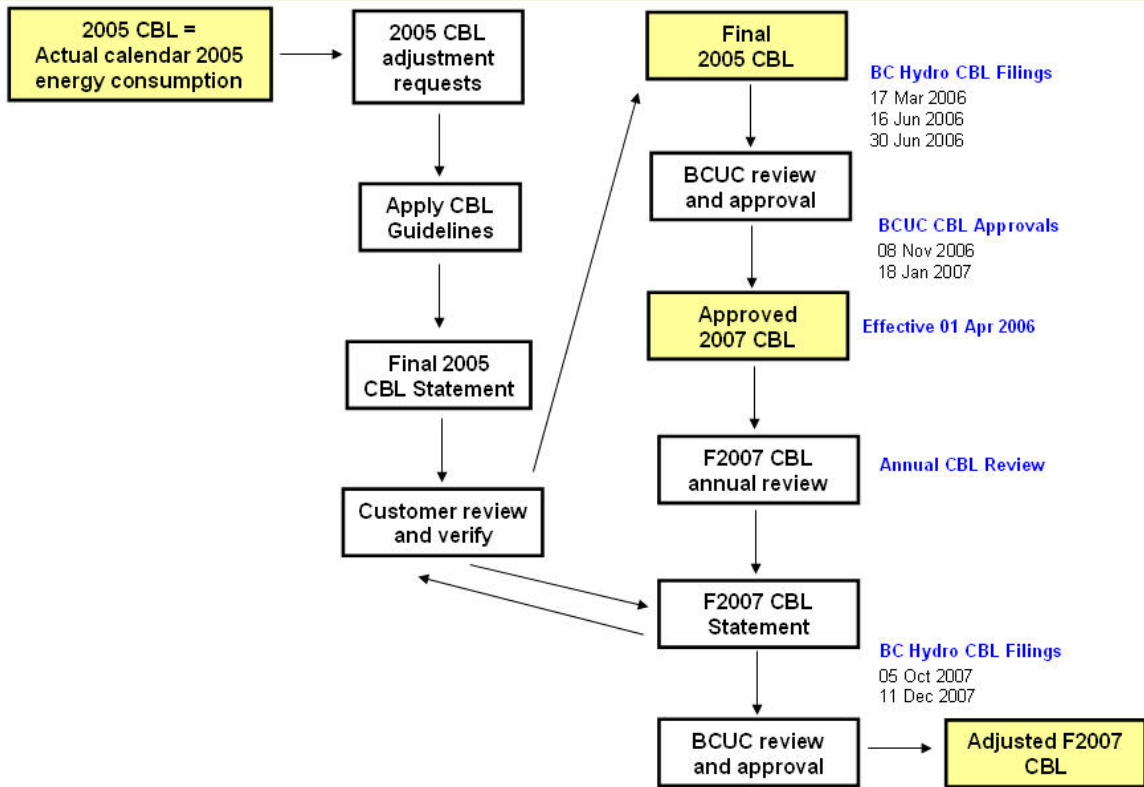


Figure 2 below describes the aggregate CBLs used for specific purposes at specific points in time. This demonstrates that the CBL is dynamic and changes over time.

Figure 2 History of Date-Specific Aggregate CBLs

Jan 2006	15,375	Calendar 2005 Billing Data
Mar 2006	15,420	Preliminary CBL filing to BCUC Used for F07/08 RRA (forecast)
Jan 2007	15,946	Final 2005 CBL = F2007 CBL Net of BCUC approved adjustments Used for F2007 Billing
Jan 2008	15,916	Adjusted F2007 CBL Used for adjusted F2007 Billing = F2007 actuals in TSR Report

3. Forecast Energy Consumption and Revenue

This chapter provides information on the aggregate customer CBLs against which F2007 energy consumption (load) and revenue was forecast on an individual customer basis. This information is specific to BC Hydro's March 2006 load forecast and March 2006 preliminary customer CBLs (March 2006 CBL), which were included in the forecast in BC Hydro's F07/F08 RRA filing. This chapter includes a discussion of the factors that contribute to forecast load and revenue variance.

3.1 Forecast RS 1823 Energy Sales

BC Hydro prepares a load forecast for transmission service customers. The load forecast is constructed using a combination of macro-level and micro-level data inputs and analysis. Macro-level analysis includes (but is not limited to) global factors such as forecast market supply and demand, weather, business cycles, industry reports and commodity/currency price forecasts. Micro-level analysis incorporates customer site-specific data such as capital and future operating plans and trends of customer electrical energy consumption, internal power generation and production output.

Table 5 F07/F08 RRA Forecast RS 1823 Energy Sales and Revenue vs RS 1827

	Forecast Energy Sales (GWh)	Rate \$/MWh	Forecast Energy Revenue \$M
<i>March 2006 Aggregate CBL = 15,420 GWh</i>			
Tier 1	13,701	25.69	352.0
Tier 2	1,794	54.00	96.9
Total RS 1823	15,495	28.52	448.9
Total RS 1827	15,495	28.52	441.9

Table 5 compares aggregate F07/F08 RRA forecast energy sales and revenue with a forecast of revenue that would have been earned under RS 1827. The forecast load for each individual RS 1823 customer was first compared to the individual customer March 2006 CBL to forecast the split (mix) of Tier 1 and Tier 2 energy sales. Forecast energy sales were not adjusted for customer CBL aggregation (discussed in section 3.2).

Forecast energy revenue was based on the requested rate increase of 4.65 per cent. The forecast load (15,495 GWh) was 75 GWh higher than the CBL (15,420 GWh). This result can be primarily attributed to the preliminary nature of the March 2006 CBL (the CBL was low because many CBL adjustment credits were not yet included). Relative to RS 1827, this resulted in a forecast revenue gain of \$7.0 million.

3.2 Impact of Customer CBL Aggregation

Stepped rate customers have the ability to aggregate (or disaggregate) individual site CBLs (under common ownership) prior to the start of the billing year. The revenue impact of CBL aggregation is to reduce Tier 2 energy sales and increase Tier 1 energy sales at the same aggregate forecast load. The effect of CBL aggregation is to partially mitigate the site-specific 10 per cent cap on Tier 2 energy reduction for large, multi-site customers. This provides the inherent ability to share large DSM investments across aggregated sites and encourage operational efficiency.

Table 6 CBL Aggregation Example – Revenue Impact (illustrative)

Energy Sales : CBL vs Forecast Impact of Site Aggregation	Rate \$/MWh	Site 1 (MWh)	Site 1 Revenue \$	Site 2 (MWh)	Site 2 Revenue \$	Aggregation (MWh)	Aggregation Revenue \$
CBL		50,000		400,000		450,000	
F2007 Forecast Energy Sales		25,000		425,000		450,000	
Tier 1	24.77	25,000	619,358	360,000	8,918,760	405,000	10,033,605
Tier 2	54.00	-	-	65,000	3,510,000	45,000	2,430,000
Total Rate 1823			619,358		12,428,760		12,463,605
Rate 1827	27.70	25,000	692,423	425,000	11,771,183	450,000	12,463,605
1823 gain or (loss) vs 1827			(73,064)		657,578		-
Total 1823 non-aggregated site revenue	13,048,118						
Total 1823 aggregated site revenue	12,463,605						
1827 reference revenue	12,463,605						

Table 6 illustrates the revenue impact of CBL aggregation. In this example, forecast load is the same on both a site-specific and aggregated basis. However, when the CBLs are aggregated for billing purposes, there is a \$584,000 revenue loss caused by the price mix difference between Tier 2 and Tier 1 energy. The potential revenue impact of customer CBL aggregation was not included in BC Hydro's calculation of F2007 forecast revenue. If it had

been, the effect would have been to reduce the \$7.0 million revenue gain shown in Table 5, relative to RS 1827.

3.3 Variance Impacts on Forecast Revenue

On a forecast basis, revenue impacts are created if there is any variance between the forecast load for each customer and the CBL used to calculate forecast revenue. Variance is unavoidable because the load forecast and CBL are constructed using different data sets and assumptions. Simply put, the load forecast looks forward (future perspective) and the CBL looks backward (historical perspective). If forecast load is greater than CBL, there will be a forecast revenue gain. If forecast load is less than CBL, there will be a forecast revenue loss. CBL aggregation (at the same forecast load and CBL) will contribute to a forecast revenue loss.

4. Actual Energy Consumption and Revenue

Actual F2007 energy consumption was first compared to the Adjusted F2007 CBL to derive the split (mix) of Tier 1 and Tier 2 energy used to calculate actual revenue. Subsequently, there are three important comparisons that involve actual F2007 energy sales and revenue. This chapter describes the factors that contribute to actual load and revenue variance relative to the Adjusted F2007 CBL, to RS 1827 and to the F07/F08 RRA forecast. Different revenue impacts arise from each comparison.

Actual F2007 energy consumption was billed against the Adjusted F2007 CBL on an individual customer basis to determine actual revenue. Actual customer energy consumption (14,853 GWh) was 1,063 GWh lower than the Adjusted F2007 CBL (15,916 GWh). This was comprised of 24 customers that increased energy sales above 100 per cent of CBL and 84 customers that reduced energy sales below 100 per cent of CBL.

Table 7 Actual RS 1823 Energy Sales and Revenue versus Adjusted F2007 CBL

	Rate \$/MWh	CBL Reference Energy Sales (GWh)	CBL Reference Revenue \$M	Actual Energy Sales (GWh)	Actual Revenue \$M
Adjusted F2007 CBL		15,916		14,853	
Tier 1	24.77	14,324	354.9	14,057	348.3
Tier 2	54.00	1,592	85.9	796	43.0
Total Rate 1823		15,916	440.8	14,853	391.2

Table 7 shows how actual F2007 RS 1823 energy sales and revenue was compared to the Adjusted F2007 CBL⁶ (reference) energy sales and revenue. This contemplates what would have happened if all transmission customers had consumed at their Adjusted F2007 CBL level. Relative to the Adjusted F2007 CBL, there was a \$49.6 million actual revenue loss.

⁶ Actual F2007 RS 1823 energy sales and Adjusted F2007 CBL shown in Table 7 are 26 GWh and 30 GWh lower, respectively, than BC Hydro's F2007 reported numbers due to the F2007 retroactive billing adjustments made pursuant to BCUC approval of the October 5, 2007 and December 11, 2007 CBL filings.

Table 8 Actual RS 1823 Energy Revenue versus RS 1827 Energy Revenue

	Rate \$/MWh	Actual Energy Sales (GWh)	Actual Revenue \$M
Adjusted F2007 CBL = 15,916 GWh			
Tier 1	24.77	14,057	348.3
Tier 2	54.00	796	43.0
Total Rate 1823		14,853	391.2
Rate 1827	27.70	14,853	411.4

Table 8 shows how actual F2007 RS 1823 energy revenue was compared to RS 1827 energy revenue (reference) based on the same actual energy sales volume of 14,853 GWh. Relative to RS 1827, there was a \$20.2 million actual revenue loss. This revenue deficiency arose because the Adjusted F2007 CBL was 1,063 GWh higher than actual energy sales which impacted the relative mix of Tier 1 and Tier 2 energy sales. The effect was to reduce the actual RS 1823 average energy sales price to \$26.34/MWh, which is lower than the RS 1827 energy sales price of \$27.70/MWh.

Importantly, a portion of the outcome described in Table 8 is illustrative of the revenue deficiency that will arise on a forecast basis if BC Hydro's application to increase the Tier 2 Rate is approved. BC Hydro will either seek recovery of the deficiency in an evidentiary update to its F2009/F2010 Revenue Requirements Application (F09/F10 RRA), or through a regulatory account, as described in the TSR Re-pricing Application.

Table 9 Actual RS 1823 Energy Sales and Revenue vs F07/F08 RRA Forecast Energy Sales and Revenue

	Forecast Energy Sales (GWh)	Rate \$/MWh	Forecast Energy Revenue \$M	Actual Energy Sales (GWh)	Rate \$/MWh	Actual Energy Revenue (\$M)
March 2006 Aggregate CBL = 15,420 GWh						
Tier 1	13,701	25.69	352.0	14,057	24.77	348.2
Tier 2	1,794	54.00	96.9	796	54.00	43.0
Total RS 1823	15,495	28.52	448.9	14,853	27.70	391.2

Table 9 shows actual F2007 RS 1823 energy sales and revenue (based on the 1.65 per cent approved rate increase) compared to F07/F08 RRA forecast energy sales and

revenue (based on the 4.65 per cent requested rate increase). Actual energy sales (14,853 GWh) were 642 GWh lower than forecast energy sales (15,495 GWh) and the Tier 1 Rate used to forecast Tier 1 energy revenue was higher than the Tier 1 Rate used to calculate actual Tier 1 energy revenue. Relative to the F07/F08 RRA forecast, there was a \$57.7 million actual revenue loss.

5. Customer Conservation and Efficiency

Electricity conservation is a key component of BC Hydro's resource acquisition stack. As noted previously RS 1823 is a rate designed primarily to elicit a customer DSM response and be consistent with retail access. This chapter describes the F2007 Reported Customer DSM response and addresses the level and impact of DSM incentives.

5.1 F2007 Reported Customer DSM

As discussed in Chapter 4 above, there are many complex variables that impact customer electricity use and that contribute to load and revenue variance. This complexity serves to increase the challenge of attempting to discretely separate the impact of rates, Power Smart enabling activities and other customer decision-making factors in driving DSM action. BC Hydro's approach was to work in partnership with customers to identify the customer DSM efforts that could be reasonably attributed to the influence of the Tier 2 price signal and Power Smart enabling activities working in combination.

Customer DSM investment was evidenced by 428 GWh of F2007 Reported Customer DSM (acquired)⁷. This was equal to the sum of each individual customer DSM project reported by customers to be operational during F2007. Customers were encouraged to report DSM projects to BC Hydro for the purposes of completing the F2007 CBL annual review and to inform BC Hydro's electricity acquisition efforts. For convenience, BC Hydro has separated the 428 GWh of F2007 Reported Customer DSM into three primary categories, as set out in Table 10.

⁷ Acquired DSM reflects the total estimated electrical energy reduction deemed (or physically measured) to occur at the customer's BC Hydro meter between the F2007 installation date of each project and March 31, 2007.

Table 10 Summary of F2007 Reported Customer DSM by Category

	GWh
Customer-funded DSM projects already included in F2007 CBL <ul style="list-style-type: none"> • These projects are reflected in section 2 Table 3 as CBL adjustment credits to the 2005 CBL. 	167
Incremental F2007 customer self-generation <ul style="list-style-type: none"> • These projects represent the incremental increase of customer self-generation between the CBL establishment year and F2007 that displaced actual RS 1823 energy consumption. Actual gross generator output in the CBL establishment year was used as the default generation baseline from which incremental generation output was measured (net of contractual sale commitments and market sales). 	138
Incremental F2007 customer conservation projects <ul style="list-style-type: none"> • These projects represent the estimated acquired energy savings for new customer-funded conservation projects installed between January 1, 2006 and March 31, 2007. 	123
TOTAL	428

BC Hydro notes that some customers elected not to report DSM projects to BC Hydro during F2007. There was no obligation for them to do so. The logical inference is that 428 GWh of F2007 Reported Customer DSM is a conservative estimate, since it reflects only the portion of the total customer DSM response that was reported to BC Hydro. Further, the TSR Annual Report is based on only twelve months of actual experience with Stepped Rates.

This is a limited period of time to attempt to verify the entire DSM response to such a complex change in rate structure. More experience is required before BC Hydro will be in a position to make firm conclusions as to the impacts.

Prior to the implementation of Stepped Rates, BC Hydro provided a direct capital incentive towards the capital cost of eligible/approved efficiency projects. No new direct capital incentives for DSM projects were provided for transmission service customers effective April 1, 2006. In its place, the Tier 2 Rate was designed to provide a clear price signal to encourage investment in electrical energy conservation and efficiency.

6. Financial and Cost-shifting Impacts

In this chapter BC Hydro describes how the revenue variances described in Chapter 4 are allocated between itself and its customers. In summary, CBL variance, load variance and energy price mix variance are the primary drivers of revenue variance. CBL variance results from changes to the CBL and from CBL aggregation. Load variance results from changes due to customer DSM and all other non-DSM factors such as industrial commodity markets, weather, production levels, product changes, shutdowns, etc. Energy price mix variance results from changes to the relative mix of Tier 1 and Tier 2 energy sales (at the same total energy volume) caused by CBL variance and load variance.

In Chapter 4, Table 7 showed a F2007 revenue variance of \$49.6 million between actual revenue and the revenue BC Hydro would have earned had all RS 1823 customers consumed at their Adjusted F2007 CBL level. To the extent that BC Hydro can accurately forecast its RS 1823 load, and know in advance what the final CBLs and RS 1823 pricing will be, the revenue deficiency is allocated across all customer classes and BC Hydro is held harmless. None of these factors can be known in advance with certainty, though, and it follows that in virtually every year BC Hydro will have some actual, after-the-fact revenue variance arising from RS 1823.

In Chapter 4, Table 8 showed a F2007 revenue variance of \$20.2 million arising primarily from the difference between the RS 1823 stepped rate structure and the RS 1827 flat-rate structure. To the extent that BC Hydro knows in advance what the pricing of RS 1823 will be, this revenue deficiency is largely allocated to customers and BC Hydro is held harmless. Whereas in the current situation, given the TSR Re-pricing application, and hence where the RS 1823 pricing is uncertain, BC Hydro believes it is appropriate to capture the consequential revenue deficiency either in a regulatory account or in the revenue requirement. Other revenue variances arising from the pricing structure that can not so neatly be forecast are borne by BC Hydro.

In Chapter 4, Table 9 showed a F2007 revenue variance of \$57.7 million between F07/F08 RRA forecast and actual revenue, arising from a combination of factors: load variance; uncertainty regarding final CBLs used for billing purposes; and uncertainty

regarding RS 1823 pricing. In the F09/F10 RRA BC Hydro proposes to capture revenue variances arising from load uncertainty through amendments to the Non-Heritage Deferral Account. The balance of the revenue risk is borne by BC Hydro.