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December 17, 2010

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)
BC Hydro F2011 Second Quarter Deferral Account Report**

BC Hydro attaches its Fiscal 2011 Second Quarter Deferral Account Report for the six-month period ending September 30, 2010, pursuant to BCUC Directive No. 17 (of BCUC F2005/F2006 Revenue Requirements Application Decision, Order No. G-96-04). This report contains year-to-date information on the Heritage Deferral Account (**HDA**), the Non-Heritage Deferral Account (**NHDA**), the Trade Income Deferral Account (**TIDA**), and the BCTC Deferral Account (**BCTCDA**).

The Fiscal 2011 Revenue Requirement Application (**F11 RRA**) Negotiated Settlement Agreement approved by BCUC Order No. G-180-10 on December 2, 2010 transferred BC Hydro's share of the Fiscal 2010 ending balances of the BCTC Regulatory Accounts to the BCTCDA. This transfer will be reflected in the Fiscal 2011 Third Quarter Deferral Account Report.

As noted in the F11 RRA Evidentiary Update filed July 9, 2010, the need for the BCTCDA arose solely because of the separate existence of BC Hydro and the British Columbia Transmission Corporation. Although the integration of the two companies that took place on July 5, 2010 meant that this account was no longer required, BC Hydro proposed that the BCTCDA be maintained pending the resolution of an application regarding the BCTC Regulatory Accounts. BC Hydro filed that application on December 14, 2010, dealing with the disposition of the BCTC Regulatory Accounts and BCTCDA balances, along with resulting minor revisions to the NHDA.

December 17, 2010
Ms. Erica M. Hamilton
Commission Secretary
British Columbia Utilities Commission
BC Hydro F2011 Second Quarter Deferral Account Report

For further information, please contact Guy Leroux at 604-623-3696 or by e-mail at bchydroregulatorygroup@bchydro.com.

Yours sincerely,



Joanna Sofield
Chief Regulatory Officer

ab/rh

Enclosure



Quarterly Deferral Account Report

For the Six Months Ended

September 30, 2010

Table of Contents

Summary of Deferral Accounts Schedule A

Summary of Deferral Account Changes Schedule A-1

Deferral Account Rules Schedule A-2

British Columbia Hydro and Power Authority
 Summary of Deferral Accounts
 For Six Months Ended September 30, 2010
 (\$ million)

Line No.	Particulars (1)	Opening Balance at April 1, 2010 (2)	Changes (Schedule A-1) (3)	Amortization (4)	Interest (5)	Ending Balance at September 30, 2010 (6)
1	Heritage Deferral Account (HDA)	\$324.9	\$60.7	(\$31.1)	\$7.2	\$361.7
2	Non-Heritage Deferral Account (NHDA)	119.5	89.5	(11.4)	2.5	200.0
3	Trade Income Deferral Account (TIDA)	121.7	67.2	(11.6)	4.3	181.5
4	BCTC Deferral Account	18.7	6.3	(1.8)	0.4	23.6
5	Total	<u>\$584.8</u>	<u>\$223.6</u>	<u>(\$55.9)</u>	<u>\$14.4</u>	<u>\$766.8</u>

6
7

8 In the October 29, 2004 BCUC Decision, the BCUC approved the creation of four deferral accounts to capture the differences
 9 between forecasts used in setting rates and actuals. The forecast used in this deferral account report is the F2011 RRA
 10 forecast as applied for in the F2011 Revenue Requirement Application (F11 RRA). Accordingly, the proposed treatment of these
 11 energy deferrals are made based on BC Hydro's F11 RRA. The attached Deferral Rules in Schedule A-2 will be updated in
 12 accordance with the BCUC approval of the F11 RRA Negotiated Settlement Agreement.

13

14 The transfers into the HDA of \$60.7 million are largely related to lower-than-normal water inflows that resulted in higher market
 15 electricity purchases. As a result, total heritage cost of energy was higher than the F11 RRA plan (Schedule A-1).

16

17 The transfers into the NHDA of \$89.5 million are largely due to higher net purchases from Powerex (future use) and the
 18 domestic revenue variance as noted (Schedule A-1).

19

20 The year to date transfers into the TIDA are higher than forecast primarily due to lower gross profit as a result of lower energy
 21 prices.

22

23 Revenues collected via the Deferral Account Rate Rider (DARR) are used to amortize (reduce) the deferral account balances.
 24 The reduction is allocated to each deferral account based on the proportion of the ending F2010 deferral account balances.

25

26 Interest is calculated on the ending monthly balance (before interest) in each deferral account. The interest rate used is
 27 4.47 per cent, which is BC Hydro's weighted cost of debt for the prior fiscal year-end as agreed to in the F07/F08 RRA NSA.

28

29 Due to minor rounding some totals may not add.

Schedule A-1

British Columbia Hydro and Power Authority
Summary of Deferral Account Changes
For Six Months Ended September 30, 2010
(\$ in millions)

Line No.	Particulars (1)	Actual (2)	RRA (3)	Variance (4)	Ref. (5)
1	Heritage Deferral Account				
2	Cost of Energy - Total Heritage	\$ 232.8	\$ 191.0	\$ 41.8	
3	Notional Water Rental (Displaced Hydro)	5.2	(12.8)	17.9	
4	Mark to market (gains)/losses on derivatives	1.2	-	1.2	
5	Skagit Valley Treaty & Ancillary revenue	(7.2)	(7.7)	0.5	
6	Amortization of unplanned deferred capital cost per				
7	BCUC Order No. G-53-02	2.7	3.4	(0.6)	
8	Variable cost related to thermal generation	(0.1)	-	(0.1)	
9	Total	<u>\$ 234.7</u>	<u>\$ 173.9</u>	<u>\$ 60.7</u>	
10					
11	Non-Heritage Deferral Account				
12	Cost of Energy - Total Non-Heritage	\$ 381.0	\$ 315.1	\$ 65.9	
13	Notional Water Rental (Displaced Hydro)	(5.2)	12.8	(17.9)	
14	FX (gain) / loss on Powerex trade account	0.5	-	0.5	
15	Subtotal	<u>\$ 376.3</u>	<u>\$ 327.9</u>	<u>\$ 48.4</u>	
16	Domestic revenue variance			32.5	
17	PTP and NITS variances post-integration of BCTC			8.5	Note 1
18	Founding Partner Benefits - ABS Contract			-	
19	Total			<u>\$ 89.5</u>	
20					
21	Trade Income Deferral Account				
22	Powerex Net Income (Loss)			\$ 42.4	Note 2
23	Excess below threshold for deferral account transfer			-	
24				<u>42.4</u>	
25	Less: Trade Income from RRA			109.5	
26	Total			<u>\$ 67.2</u>	
27					
28	BCTC Deferral Account				
29	BCTC Asset Management Fee:				
30	Transmission Assets	\$ 23.1	\$ 23.1	\$ -	
31	Generation Related Transmission Assets	2.1	2.1	-	
32	Substation Distribution Assets	4.6	3.7	0.9	
33	Net NITS and PTP Charges:				
34	Total NITS and PTP Charges	141.8	142.8	(1.0)	
35	Less: Intersegment Revenues - NITS	(111.9)	(112.5)	0.6	
36	Less: Intersegment Revenues - PTP	(11.8)	(11.2)	(0.6)	
37	Less: Charges Included in HDA and TIDA	(6.5)	(13.0)	6.5	
38	External PTP Revenues	(2.0)	(2.1)	0.1	
39	Total	<u>\$ 39.2</u>	<u>\$ 32.9</u>	<u>\$ 6.3</u>	

Note 1: As a result of the BC Hydro and BCTC integration, PTP and NITS variances in F2011 Q2 that were previously captured in BC Hydro's BCTC Deferral Account are now recorded in the NHDA, subject to BCUC approval of the Application for Disposition and Termination of BCTC Regulatory Accounts and BC Hydro Deferral Account, filed with the BCUC on December 14, 2010.

Note 2: Powerex net income reported for regulatory purposes is net of the corporate overhead allocation from BC Hydro to Powerex in accordance with Directive 9 of the F09/F10 RRA Decision and the F11 RRA.

Schedule A-2
Deferral Account Rules

The following “rules” are used by BC Hydro for providing clarity in determining the deferral account transfers. These rules are derived from BC Hydro’s interpretation of the evidence and testimony provided during the F2005/F2006 Revenue Requirement Application proceeding and in response to BCUC Directive No. 19 of the October 29, 2004 Decision, and updated for the F07/F08 RRA NSA and Directives included in the F09/F10 RRA Decision.

Heritage Deferral Account (HDA)

Commission Decision, October 29, 2004, Page 41:

Commission Findings

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

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

1. Cost of energy.¹

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

- Gains/losses on energy derivatives and financial instruments used to minimize energy costs are included as part of total energy costs.
- The total Heritage Energy (including Skagit/Seattle City Light commitments) is limited to 49,000 GWh in terms of the Heritage contract. If the Heritage Energy including 100 per cent of market electricity purchases exceeds the Heritage Energy limit, the excess purchases are transferred to Non-Heritage Energy in order to reduce the Heritage Energy volumes to the Heritage Contract limit.
- Cost of energy variances resulting from changes to compensation and mitigation costs, water rental remissions, or Skagit energy transportation contracts are eligible for deferral. These are price variances as they do not vary with volume.
- All load curtailment costs are to be included as part of the Heritage Payment Obligation and variance between Actual and Plan is to be included in the HDA.²

2. Variable costs related to thermal generation.¹

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

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

5. Amortization of unplanned deferred capital costs pursuant to Commission Order No. G-53-02.¹

6. All net revenues from surplus hydro electricity sales.³

7. Skagit Valley Treaty revenues and ancillary services revenues.³

8. An interest charge/credit⁴ is to be calculated on the ending monthly balance in each deferral account. The interest rate used is BC Hydro's weighted cost of debt for the prior fiscal year-end.

¹ Per F05/F06 RRA Decision Directive 11, amended by the F09F/10 RRA Decision, Directive 31.

² Per F09/F10 RRA Decision, Directive 30.

³ Per F05/F06 RRA Decision, Directive 11.

⁴ Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA Negotiated Settlement Agreement.

Non-Heritage Deferral Account (NHDA)

Commission Decision, October 29, 2004, Page 41:

Commission Findings

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

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

1. Cost of energy - all non-HPO energy costs.¹ This item is expanded in greater detail below to provide clarification on the methodology used to determine variances:
 - Any variances relating to fixed price gas transportation contracts would flow through the deferral accounts as they do not vary with volume;
 - Future Trade: when Powerex purchases energy for future trade the cost of the purchase from the external party and the sale to BC Hydro of this energy is recorded in Powerex and is included as part of Trade Income. The BC Hydro side of the entry is shown as part of domestic energy costs (on consolidation, the Powerex revenue from BC Hydro and the BC Hydro energy costs from Powerex are eliminated). The difference between Actual and Plan on the BC Hydro side relating to energy for future trade flows through the Non-Heritage Deferral Account. The Powerex side of the transaction, which is part of Trade Income, flows through the Trade Income Deferral Account. Similar treatment is made when the energy is returned to Powerex; and
 - Future Trade: when Powerex purchases energy for future trade, the Heritage Payment Obligation (HPO) is charged with a notional water rental charge for the use of this energy. The other side of this entry is shown as part of Non-Heritage energy. These entries are eliminated on consolidation. The difference between the Actual and Plan notional water rentals that is part of the HPO flows through the Heritage Deferral Account. The opposite variance relating to the Non-Heritage side of the notional water rental transaction flows through the Non-Heritage Deferral Account.
 - Gains/losses on energy derivatives and financial instruments used to minimize energy costs are included as part of total energy costs.
2. Significant unplanned major maintenance costs greater than \$1 million related to single event equipment or infrastructure failure.¹
3. Significant unplanned major capital expenditures having an incremental annual impact on the Income Statement greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events.¹

¹ Per F05/F06 RRA Decision, Directive 12, amended by F09F/10 RRA Decision, Directive 31.

4. Founding Partner Benefits and any CIS Credits under the ABS Contract.¹
5. Impact of load variance.²
 - The Net Cost of Energy deferral amount is calculated by subtracting the Gross Load Variance and adding the Net Load Variance to the Gross Cost of Energy deferral amount. In practice, because Net Load Variance equals Gross Load Variance less Domestic Revenue Variance, the Net Cost of Energy Deferral simplifies to the Gross Cost of Energy Deferral minus the Domestic Revenue Variance.
6. An interest charge/credit³ is to be calculated on the ending monthly balance in each deferral account. The interest rate used is BC Hydro's weighted cost of debt for the prior fiscal year-end.

² F09/F10 RRA Decision, Directive 31.

³ Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA Negotiated Settlement Agreement.

Trade Income Deferral Account (TIDA)

Commission Decision, October 29, 2004, Page 42, Section 4.6:

Commission Findings

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

- Any variance between the forecast Trade Income and the actual trade income¹ will flow through the TIDA except where Annual Trade Income is below \$Nil and above \$200 million.
- An interest charge/credit² is to be calculated on the ending monthly balance in each deferral account. The interest rate used is BC Hydro's weighted cost of debt for the prior fiscal year-end.

¹ Per F05/F06 RRA Decision, Directive 13.

² Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA Negotiated Settlement Agreement.

BCTC Deferral Account (BCTC DA)

Commission Decision, October 29, 2004, Pages 42 and 43, Section 4.7:

Commission Findings

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

- The BCTC Deferral Account relates to two variances:
 - a) variances between BC Hydro's Asset Management/Maintenance Revenue Requirement forecast in BC Hydro's Revenue Requirement and BC Hydro's actual Asset Management/Maintenance charges from BCTC, and
 - b) variances between BCTC's Revenue Requirement forecast charges to BC Hydro in BC Hydro's Revenue Requirement and the BCTC charges to BC Hydro for transmission services.
- An interest charge/credit¹ is to be calculated on the ending annual balance in each deferral account. The interest rate used is BC Hydro's weighted cost of debt for the prior fiscal year-end.

¹ Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA Negotiated Settlement Agreement.