

Joanna Sofield

Chief Regulatory Officer

Phone: (604) 623-4046

Fax: (604) 623-4407

bhydroregulatorygroup@bhydro.com

March 3, 2009

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)
F2005/F2006 Revenue Requirements Application
BCUC Order No. G-96-04
Decision, October 29, 2004, Page 45, Directive No. 17, Page 218**

Pursuant to BCUC Directive No. 17 of the October 29, 2004 Decision concerning BC Hydro's F2005/F2006 Revenue Requirements Application, BC Hydro attaches its Fiscal 2009 Third Quarter Deferral Account report for the nine-month period ending December 31, 2008. 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).

In the previous Deferral Account reports filed this fiscal year, BC Hydro calculated the deferral account transfer amounts by comparing actual results to the plan numbers in the F2009/F2010 Revenue Requirements Application (F09/F10 RRA) filed on February 20, 2008. In this Third Quarter report, BC Hydro has used the updated forecasts from the November 21, 2008 F09/F10 RRA Final Argument as the baseline (plan) from which the deferral account transfer amounts are calculated. BC Hydro believes that the use of Final Argument numbers provides the most current view of the expected level of deferral account transfers. Using the Final Argument numbers also allows the Deferral Account report to reconcile to BC Hydro's audited Q3 financial statements and other reports that will be filed with the BCUC. For reference purposes, BC Hydro has also shown the F09/F10 RRA February 20, 2008 plan numbers on Schedule A-1.

For further information, please contact Guy Leroux at 604 623-3696.

Yours sincerely,



Joanna Sofield
Chief Regulatory Officer

Enclosure (1)

BC Hydro

Deferral Account Report

For Nine Months Ended

December 31, 2008

(F2009 Q3)

February 2009

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Schedule A

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

Line No.	Particulars (1)	Opening Balance at April 1, 2008 (2)	Changes (Schedule A-1) (3)	Amortization (4)	Interest (5)	Ending Balance at December 31, 2008 (6)
1	Heritage Deferral Account (HDA)	\$ 78.0	\$ 222.4	\$ (16.9)	\$ 9.6	\$ 293.1
2	Non-Heritage Deferral Account (NHDA)	51.6	(14.9)	(11.2)	2.3	27.8
3	Trade Income Deferral Account (TIDA)	(102.6)	(14.0)	22.1	(4.5)	(98.9)
4	BCTC Deferral Account	21.5	(3.3)	(4.8)	0.5	13.8
5	Total	<u>\$ 48.5</u>	<u>\$ 190.2</u>	<u>\$ (10.8)</u>	<u>\$ 7.9</u>	<u>\$ 235.9</u>

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In the October 29, 2004 BCUC Decision, the Commission approved the creation of four deferral accounts to capture the differences between forecasts used in setting rates and actuals. The forecasts used in this deferral report refers to Section 5.6 of BC Hydro's F2009/F2010 RRA Final Argument filing dated November 21, 2008.

The transfers into the HDA to-date are largely related to an increase in energy purchase volumes in place of hydro-generation due to lower water inflow levels; higher prices for market energy purchases including losses on energy derivatives; and significant unplanned major maintenance costs associated with the repairs to GM Shrum turbines, net of insurance recoveries.

The transfers out of the NHDA to-date are largely related to the difference between the 6.56% interim rate increase collected so far in F2009 and the final F2009 rate increase currently estimated at 3.75% by BC Hydro under the RRA Final Argument Filing of November 21, 2008. This difference is referred to as the "Rate increase differential" in this report. Other transfers include lower energy purchases from independent power producers, partly offset by the customer load variance.

Revenues collected via Rate Rider are used to amortize (reduce) the deferral account balances. The reduction is allocated to each deferral account based on the proportion of the ending F2008 deferral account balances.

Interest is calculated on the ending monthly balance (before interest) in each deferral account. The interest rate used is BC Hydro's weighted cost of debt for the prior fiscal year ended as agreed to in the F2007/F2008 RRA NSA.

Due to minor rounding some totals may not add.

SUMMARY OF GENERAL LEDGER ACCOUNT NUMBERS FOR DEFERRAL ACCOUNTS

	General Ledger (G/L) account numbers for Deferral Accounts	G/L account numbers for interest on Deferral Accounts	G/L account numbers for amortization on Deferral Accounts	
1	Heritage Deferral Account (HDA)	076000	076001	076010
2	Non-Heritage Deferral Account (NHDA)	076100	076101	076120
3	Trade Income Deferral Account (TIDA)	076200	076201	076210
4	BCTC Deferral Account (BCTCDA)	076400	076401	076410

Schedule A-1

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

Line No.	Particulars (1)	Actual (2)	RRA Final Argument Plan (3)	Variance (4)	RRA 20-Feb-08 Plan (5)
1	Heritage Deferral Account				
2	Cost of Energy - Total Heritage	\$ 447.7	\$ 316.2	\$ 131.5	\$ 407.0
3	Notional Water Rental (Displaced Hydro)	(0.3)	(5.1)	4.8	(7.7)
4	Mark to market (gains)/losses on derivatives	75.8	-	75.8	-
5	Significant unplanned major maintenance costs	13.3	-	13.3	-
6	Significant unplanned major capital expenditures	-	-	-	-
7	Skagit Valley Treaty & Ancillary revenue	(16.0)	(12.9)	(3.1)	(12.6)
8	Amortization of unplanned deferred capital cost per				
9	BCUC Order No. G-53-02	4.5	4.4	0.1	5.1
10	Total	<u>\$ 525.0</u>	<u>\$ 302.6</u>	<u>\$ 222.4</u>	<u>\$ 391.8</u>
11					
12	Non-Heritage Deferral Account				
13	Cost of Energy - Total Non-Heritage	\$ 434.9	\$ 471.9	\$ (37.0)	\$ 436.5
14	Notional Water Rental (Displaced Hydro)	0.3	5.1	(4.8)	7.7
15	Mark to market (gains)/losses on derivatives	1.6	-	1.6	-
16	Net sales to Powerex - future use	(13.9)	(54.0)	40.1	(58.5)
17	FX (gain) / loss on Powerex trade account	8.8	-	8.8	-
18	Rate increase differential	(53.8)	-	(53.8)	-
19	Subtotal	<u>\$ 377.9</u>	<u>\$ 423.0</u>	<u>\$ (45.1)</u>	<u>\$ 385.7</u>
20	Customer Load Variance			30.2	
21	Total			<u>\$ (14.9)</u>	
22					
23	Trade Income Deferral Account				
24	Trade Income			\$ 262.5	
25	Excess over Cap for deferral account transfer			<u>(62.5)</u>	
26				200.0	
27	Less: Trade Income included in the RRA			186.0	130.6
28	Total			<u>\$ (14.0)</u>	
29					
30	BCTC Deferral Account				
31	BCTC Asset Management Fee:				
32	Transmission Assets	\$ 68.2	\$ 68.2	\$ -	\$ 67.9
33	Generation Related Transmission Assets	6.2	6.2	0.0	6.2
34	Substation Distribution Assets	10.2	11.3	(1.1)	11.3
35	Net NITS and PTP Charges:				
36	Total NITS and PTP Charges	423.5	413.9	9.7	416.6
37	Less: Intersegment Revenues - NITS	(311.6)	(304.7)	(6.9)	(310.5)
38	Less: Intersegment Revenues - PTP	(42.5)	(42.5)	(0.0)	(42.7)
39	Less: Charges Included in HDA and TIDA	(36.8)	(31.9)	(4.9)	(31.9)
40	External PTP Revenues	(6.3)	(6.3)	0.0	(6.2)
41	Total	<u>\$ 111.0</u>	<u>\$ 114.2</u>	<u>\$ (3.3)</u>	<u>\$ 110.7</u>

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Deferral Account Rules

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

6 Heritage Payment Obligation Deferral Account (HDA)

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

8 Commission Findings

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

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

- 13 1. Cost of energy, except those arising from changes in customer load *¹.
14 This item is expanded in greater detail below to provide clarification on the methodology used
15 to determine variances:
 - 16 • Market electricity purchases are treated as the dispatchable resource*³.
 - 17 • If no market purchases are planned or made, the next dispatchable resource is assumed
18 to be generation from the Burrard facility.
 - 19 • If total Heritage and non-Heritage energy volumes are lower than Plan, the Load variance
20 is calculated using the Plan YTD average market purchase price of electricity*³.
 - 21 • If total Heritage and non-Heritage energy volumes are higher than Plan, the Load
22 variance is calculated using the Actual YTD average market purchase price of electricity
23 (netted for any gains/losses on energy derivatives and financial instruments used to
24 manage energy costs)*³.
 - 25 • The total Heritage Energy (including Skagit / Seattle City Light commitments) is limited to
26 49000 GWh in terms of the Heritage contract. If the Heritage Energy including 100% of
27 market electricity purchases exceeds the Heritage Energy limit, the excess purchases are
28 transferred to Non-Heritage Energy in order to reduce the Heritage Energy volumes to
29 the Heritage Contract limit.
 - 30 • Cost of energy variances resulting from changes to compensation and mitigation costs,
31 water rental remissions, or Skagit energy transportation contracts are eligible for deferral.
32 These are price variances as they do not vary with volume.
- 33 2. Variable costs related to thermal generation*¹.
- 34 3. Significant unplanned major maintenance costs greater than \$1 million related to single event
35 equipment or infrastructure failure or caused by weather related events*¹.
- 36 4. Significant unplanned major capital expenditures having an incremental annual impact on the
37 Income Statement greater than \$1 million related to single event equipment or infrastructure
38 failure or caused by weather related events*¹.
- 39 5. Amortization of unplanned deferred capital costs pursuant to Commission Order No. G-53-
40 02*¹.
- 41 6. All net revenues from surplus hydro electricity sales*².
- 42 7. Skagit Valley Treaty revenues and ancillary services revenues*².

- 1 • An interest charge/credit^{*3} is to be calculated on the ending monthly balance (excluding the
2 interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost
3 of debt for the prior fiscal year ended.

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

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

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

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

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

3 *Commission Findings*

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

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

- 13 1. Cost of energy - all non-HPO energy costs except those arising from changes in customer
 14 load, *¹. This item is expanded in greater detail below to provide clarification on the
 15 methodology used to determine variances:
- 16 • If total Heritage and Non-Heritage energy volumes are lower than Plan, the Non-Heritage
 17 Load Variance (volume variances for IPP, Long term purchases and Market Purchases
 18 transferred from Heritage Energy) is calculated using the Plan YTD average market
 19 purchases price of electricity *². For Non – Integrated supply, the fuel costs are treated as
 20 the next dispatchable resource.
 - 21 • If total Heritage and Non-Heritage energy volumes are higher than Plan, the Non-
 22 Heritage Load Variance (volume variances for IPP, Long term purchases and Market
 23 Purchases transferred from Heritage Energy) is calculated using the Actual YTD average
 24 market purchases price of electricity (netted for any gains/losses on energy derivatives
 25 and financial instruments used to manage energy costs) *². For Non – Integrated supply,
 26 the fuel costs are treated as the next dispatchable resource.
 - 27 • Any variances relating to fixed price gas transportation contracts would flow through the
 28 deferral accounts as they do not vary with volume;
 - 29 • Future Trade: when Powerex purchases energy for future trade the cost of the purchase
 30 from the external party and the sale to BC Hydro of this energy is recorded in Powerex
 31 and is included as part of Trade Income. The BC Hydro side of this entry is shown as part
 32 of domestic energy costs (on consolidation, the Powerex revenue from BC Hydro and the
 33 BCH energy costs from Powerex are eliminated). The difference between Actual and
 34 Plan on the BC Hydro side relating to energy for future trade will flow through the Non-
 35 Heritage Deferral Account. The Powerex side of the transaction is part of Trade Income
 36 and flows through the Trade Income Deferral Account. Similar treatment is made when
 37 the energy is returned to Powerex; and
 - 38 • Future Trade: when Powerex purchases energy for future trade, the Heritage Payment
 39 Obligation (HPO) is charged with a notional water rental charge for the use of this energy.
 40 The other side of this entry is shown as part of Non-Heritage energy. These entries are
 41 eliminated on consolidation. The difference between the Actual and Plan notional water
 42 rentals that is part of the HPO would flow through the Heritage Deferral Account. The
 43 opposite variance relating to the Non-Heritage side of the notional water rental
 44 transaction will flow through the Non-Heritage Deferral Account.
- 45 2. Significant unplanned major maintenance costs greater than \$1 million related to single event
 46 equipment or infrastructure failure or caused by weather related events*¹.

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

4 4. Founding Partner Benefits and any CIS Credits under the ABS Contract*¹.

5 • An interest charge/credit*² is to be calculated on the ending monthly balance (excluding the
6 interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost
7 of debt for the prior fiscal year ended.

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

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

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

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

3 **Commission Findings**

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

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

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

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

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1 **BCTC Deferral Account (BCTC DA)**

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

3 **Commission Findings**

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

8 • The BCTC Deferral Account relates to two variances:

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

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

15 • An interest charge/credit*¹ is to be calculated on the ending annual balance (excluding the
16 interest portion) in each deferral account. The interest rate used is BC Hydro's weighted cost
17 of debt for the prior fiscal year ended.

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

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