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March 8, 2011

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 Quarterly Deferral Account Report for the Nine Months ended  
December 31, 2010**

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BC Hydro attaches its Quarterly Deferral Account Report for the nine month period ending December 31, 2010, pursuant to BCUC Directive No. 17 (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**).

Due to the integration of BC Hydro and the British Columbia Transmission Corporation that took place on July 5, 2010, the BCTCDA is no longer required. On February 10, 2011, the BCUC issued Order No. G-16-11, which approved, among other things, the transfer of the remaining balance in the BCTCDA to the NHDA and the termination of the BCTCDA. The effects of Order No. G-16-11 will be reflected in BC Hydro's Quarterly Deferral Account Report for the 12 months ending March 31, 2011.

For further information, please contact Guy Leroux at 604-623-3696 or by e-mail at [bchydroregulatorygroup@bchydro.com](mailto:bchydroregulatorygroup@bchydro.com).

Yours sincerely,



Joanna Sofield  
Chief Regulatory Officer

ab/rh

Enclosure



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**Quarterly Deferral Account Report**

**For the Nine Months Ended**

**December 31, 2010**

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## Schedule A

British Columbia Hydro and Power Authority  
Summary of Deferral Accounts  
For Nine Months Ended December 31, 2010  
(\$ million)

Line No.	Particulars	Opening Balance at April 1, 2010	Changes (Schedule A-1)	Amortization	Interest	Ending Balance at December 31, 2010
	(1)	(2)	(3)	(4)	(5)	(6)
1	Heritage Deferral Account (HDA)	\$324.9	\$2.7	(\$50.4)	\$10.7	\$287.9
2	Non-Heritage Deferral Account (NHDA)	119.5	169.7	(18.5)	4.5	275.1
3	Trade Income Deferral Account (TIDA)	121.7	101.0	(18.9)	6.8	210.6
4	BCTC Deferral Account	18.7	0.8	(2.9)	0.8	17.4
5	Total	<u>\$584.8</u>	<u>\$274.2</u>	<u>(\$90.7)</u>	<u>\$22.8</u>	<u>\$791.0</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 Negotiated  
10 Settlement Agreement (F11 RRA NSA).

11

12 The transfers into the HDA of \$2.7 million are largely related to lower than expected water inflows that resulted in higher market  
13 electricity purchases. As a result, total heritage cost of energy was lower than the F11 RRA NSA (Schedule A-1).

14

15 The transfer into the NHDA of \$169.7 million is largely due to an adjustment to the baseline in accordance with the terms of the  
16 F11 RRA NSA (Appendix B, Schedule 4.0). An annual baseline adjustment of \$223 million was necessary to maintain the rate  
17 increase at 6.11 per cent.

18

19 The year to date transfers into the TIDA are higher than forecast primarily due to lower net income as a result of lower energy prices.

20

21 The transfer of \$0.8 million into the BCTC Deferral Account represents a timing difference that will be reversed in the next quarterly  
22 report.

23

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

26

27 Interest is calculated on the ending monthly balance (before interest) in each Deferral Account. The interest rate used is 4.47  
28 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.

29

30 Due to minor rounding some totals may not add.

## Schedule A-1

British Columbia Hydro and Power Authority  
Summary of Deferral Account Changes  
For Nine Months Ended December 31, 2010  
(\$ in millions)

Line No.	Particulars (1)	Actual (2)	NSA (3)	Variance (4)	Ref. (5)
1	<b>Heritage Deferral Account</b>				
2	Cost of Energy - Total Heritage	\$367.4	\$369.0	(\$1.6)	
3	Notional Water Rental (Displaced Hydro)	4.0	2.6	1.4	
4	Mark to market (gains)/losses on derivatives	2.1	-	2.1	
5	Unrealized value of monthly gas requirements	0.0	-	0.0	
6	Skagit Valley Treaty & Ancillary revenue	(10.9)	(12.5)	1.6	
7	Amortization of unplanned deferred capital cost per				
8	BCUC Order No. G-53-02	4.1	4.8	(0.7)	
9	Variable cost related to thermal generation	(0.1)	-	(0.1)	
10	Total	<u>\$ 366.7</u>	<u>\$ 364.0</u>	<u>\$ 2.7</u>	
11					
12	<b>Non-Heritage Deferral Account</b>				
13	Cost of Energy - Total Non-Heritage	\$ 572.9	\$ 608.8	\$ (35.9)	
14	Notional Water Rental (Displaced Hydro)	(4.0)	(2.6)	(1.5)	
15	Unrealized value of monthly gas requirements	(0.2)	-	(0.2)	
16	FX (gain) / loss on Powerex trade account	(3.1)	-	(3.1)	
17	ABSU Founding Partner Benefits	-	(0.3)	0.3	
18	NHDA Baseline Adjustment	-	(164.9)	164.9	
19	Subtotal	<u>565.5</u>	<u>441.0</u>	<u>124.4</u>	
20	Domestic revenue variance			35.2	
21	PTP and NITS variances post-integration of BCTC			<u>10.0</u>	<b>Note 1</b>
22	Total			<u>\$ 169.7</u>	
23					
24	<b>Trade Income Deferral Account</b>				
25	Powerex Net Income (Loss)			\$ 41.0	<b>Note 2</b>
26	Excess below threshold for deferral account transfer			-	
27				<u>41.0</u>	
28	Less: Trade Income from RRA			<u>142.0</u>	
29	Total			<u>\$ 101.0</u>	

**Note 1:** As a result of the BC Hydro and BCTC integration, transmission service revenue variances in F2011 Q3 that were previously captured in BC Hydro's BCTC Deferral Account are now recorded under the NHDA. The NHDA is also used to defer variances arising from intercompany transactions with Powerex that have been deferred as part of the Trade Income Deferral Account.

**Note 2:** Powerex net income reported for regulatory purposes is net of the \$2.1 million corporate overhead allocation from BC Hydro to Powerex in accordance with Directive 9 the F09/F10 RRA Decision, and F11 RRA NSA changes.

**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 as well as the F11 RRA NSA.

**Heritage Deferral Account (HDA)**

***BCUC 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.***

Variations 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.<sup>1</sup>

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.<sup>2</sup>

2. Variable costs related to thermal generation.<sup>1</sup>

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

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.<sup>1</sup>

5. Amortization of unplanned deferred capital costs pursuant to BCUC Order No. G-53-02.<sup>1</sup>

6. All net revenues from surplus hydro electricity sales.<sup>3</sup>

7. Skagit Valley Treaty revenues and ancillary services revenues.<sup>3</sup>

8. An interest charge/credit<sup>4</sup> 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.

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

<sup>2</sup> Per F09/F10 RRA Decision, Directive 30.

<sup>3</sup> Per F05/F06 RRA Decision, Directive 11.

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

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

**BCUC 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.<sup>1</sup> 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.<sup>1</sup>
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.<sup>1</sup>

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<sup>1</sup> 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.<sup>1</sup>
5. Impact of load variance.<sup>2</sup>
  - 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/credit<sup>3</sup> 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.

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<sup>2</sup> F09/F10 RRA Decision, Directive 31.

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

**Trade Income Deferral Account (TIDA)**

***BCUC 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 income<sup>1</sup> will flow through the TIDA except where Annual Trade Income is below \$Nil and above \$200 million.
- An interest charge/credit<sup>2</sup> 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.

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<sup>1</sup> Per F05/F06 RRA Decision, Directive 13.

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

**BCTC Deferral Account (BCTC DA)**

**Commission Order G-180-10 dated December 2, 2010, APPENDIX B, Page 6, Provision 8:**

**Commission Findings**

***The relief sought by BC Hydro in the F11 RRA, as amended by the Evidentiary Update, including the relief requested in section 1.2 of the Evidentiary Update, is accepted subject to the provisions that follow.***

As noted in BC Hydro's F2011 Evidentiary Update (Section 3.1.2), the BCTC Deferral Account is the mechanism by which the variance between BC Hydro's forecast and actual share of the net balance of the BCTC Regulatory Accounts is amortized into BC Hydro's bundled service rates. However, the need for the BCTC Deferral Account arose solely because of the two companies' separate existence. Given the integration of the two companies that took place on July 5, 2010, there is no longer an on-going need for the account.

By letter dated January 31, 2011, BC Hydro applied to the BCUC for approval to transfer the remaining balances in the BCTC DA to the NHDA and terminate the BCTC DA. As the BCUC issued Order No. G-16-11 on February 10, 2011, the remaining balances in the BCTC Regulatory Accounts were not transferred in the NHDA in the period ending December 31, 2010. The Deferral Account report for the 12 months ending March 31, 2011 will reflect the transfer of the remaining balances of the BCTC Regulatory Accounts and the BCTC DA to the NHDA, and the termination of those accounts, in accordance with BCUC Order Nos. G-180-10 and G-16-11.

An interest charge/credit<sup>1</sup> 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.

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