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September 13, 2011

Ms. Alanna Gillis
Acting Commission Secretary
British Columbia Utilities Commission
Sixth Floor – 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Gillis:

**RE: British Columbia Utilities Commission (BCUC)
British Columbia Hydro and Power Authority (BC Hydro)
Quarterly Deferral Account Report for the Three Months ended
June 30, 2011**

BC Hydro attaches its Deferral Account Report for the three-month period ending June 30, 2011, pursuant to Directive No. 17 of the BCUC's Decision on BC Hydro's F2005/F2006 Revenue Requirements Application (**F05/F06 RRA**) (Order No. G-96-04). This report contains information on the Heritage Deferral Account (**HDA**), the Non-Heritage Deferral Account (**NHDA**), and the Trade Income Deferral Account (**TIDA**).

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

Yours sincerely,



Janet Fraser
Chief Regulatory Officer

ab/rh

Enclosure



Quarterly Deferral Account Report

For the Three Months Ended

June 30, 2011

Table of Contents

Summary of Deferral Accounts Schedule A

Summary of Deferral Account Changes Schedule A-1

Deferral Account Rules Schedule A-2

BC Hydro Quarterly Deferral Account Report - June 30, 2011
Schedule A

British Columbia Hydro and Power Authority
Summary of Deferral Accounts
For Three Months Ended June 30, 2011
(\$ million)

Line No.	Particulars (1)	Opening Balance at April 1, 2011 (2)	Changes (Schedule A-1) (3)	Amortization (4)	Interest (5)	Ending Balance at June 30, 2011 (6)
1	Heritage Deferral Account (HDA)	\$247.7	(\$6.7)	(\$6.1)	\$2.8	\$237.7
2	Non-Heritage Deferral Account (NHDA)	362.2	(5.9)	(9.0)	4.1	351.4
3	Trade Income Deferral Account (TIDA)	187.5	(21.9)	(4.7)	2.4	163.3
4	Total	\$797.4	(\$34.5)	(\$19.8)	\$9.3	\$752.4

5
6
7

8 In its October 29, 2004 Decision, the BCUC approved the creation of four deferral accounts to capture the differences
9 between forecasts used in setting rates and actuals. By Order No. G-16-11, the BCUC approved the termination of the BCTC
10 Deferral Account.

11
12 The forecast used in this deferral account report is from the F2012-F2014 Revenue Requirements Application (**F12-F14 RRA**)
13 filed on March 1, 2011.

14

15 The transfers out of the HDA of \$6.7 million are largely due to the reasons shown on Schedule A-1.

16

17 The transfers out of the NHDA of \$5.9 million are primarily due to lower net imports from Powerex than plan as a result of
18 higher than expected internally generated energy due to higher water inflows.

19

20 The transfers out of the TIDA of \$21.9 million are principally due to higher gross profit as a result of increased intraday price
21 volatility in the Northwest and higher locational price spreads.

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 F2011 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 BC Hydro's actual weighted cost of debt for its current fiscal year as proposed in the F12-F14 RRA.

28

29 Due to minor rounding some totals may not add.

BC Hydro Quarterly Deferral Account Report - June 30, 2011
Schedule A-1

British Columbia Hydro and Power Authority
Summary of Deferral Account Changes
For Three Months Ended June 30, 2011
(\$ million)

Line No.	Particulars (1)	Actual (2)	RRA (3)	Variance (4)	Ref. (5)
1	Heritage Deferral Account				
2	Cost of Energy - Total Heritage	\$90.1	\$91.8	(\$1.7)	
3	Notional Water Rental (Displaced Hydro)	(0.9)	2.8	(3.7)	
4	Skagit Valley Treaty & Ancillary revenue	(2.8)	(3.0)	0.2	
5	Costs in Operating / Amortization	4.9	7.8	(2.9)	Note 1
6	Significant unplanned major maintenance costs	0.7	-	0.7	Note 2
7	Amortization of unplanned deferred capital cost per BCUC Order No. G-53-02	2.4	1.7	0.7	
8	Total	<u>\$94.4</u>	<u>\$101.1</u>	<u>(\$6.7)</u>	
9					
10	Non-Heritage Deferral Account				
11	Cost of Energy - Total Non-Heritage	\$159.7	\$182.0	(\$22.3)	
12	Notional Water Rental (Displaced Hydro)	0.9	(2.8)	3.7	
13	FX (gain) / loss on Powerex trade account	(0.6)	-	(0.6)	
14	Gains (losses) on cash flow hedges with Powerex	(0.2)	-	(0.2)	
15	Future Trades - embedded derivatives with Powerex	0.1	-	0.1	
16	ABSU Founding Partner Benefits	-	(0.1)	0.1	
17	PTP and NITS variances	0.4	-	0.4	Note 3
18	Domestic Revenue Variance	12.9	-	12.9	
19	Total	<u>\$173.2</u>	<u>\$179.1</u>	<u>(\$5.9)</u>	
20					
21	Trade Income Deferral Account				
22	Powerex Net Income (Loss)			\$50.0	Note 4
23	Less: Trade Income from RRA			<u>28.1</u>	
24	Total			<u>(\$21.9)</u>	

Note 1: Costs associated with maintaining water licences and water use plans, compensation and mitigation efforts to fund fish and wildlife programs and load curtailment efforts have been reclassified from cost of energy to other line items on the financial statements in preparation for the conversion to IFRS and in conjunction with BC Hydro's implementation of its new financial system. Since the nature of these costs has not changed, these costs continue to be treated as cost of energy for deferral accounting purposes, consistent with Heritage Special Direction No. HC2.

Note 2: Significant unplanned major maintenance costs consist of \$0.7 million incurred to-date to repair the T2 transformer that was taken out of service at the Seven Mile Generation Facility. Total maintenance cost to bring the transformer back to service is expected to exceed \$1 million.

Note 3: In Order No. G-16-11, the BCUC approved the deferral of the difference between forecast and actual transmission service revenue into the NHDA.

Note 4: Powerex net income reported for regulatory purposes is net of \$0.7 million corporate overhead allocation from BC Hydro to Powerex in accordance with Directive 9 of the F09/F10 RRA Decision.

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 F05/F06 RRA proceeding and in response to BCUC Directive No. 19 of the October 29, 2004 Decision on BC Hydro’s F05/F06 RRA, and updated for the F07/F08 RRA NSA, the F09/F10 RRA Decision, the F11 RRA NSA, and the F12-F14 RRA filed on March 1, 2011.

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.

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

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.

5. Amortization of unplanned deferred capital costs pursuant to BCUC 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 actual weighted cost of debt for its current fiscal year as proposed in the F12-F14 RRA filed on March 1, 2011.⁵

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.⁶ 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.

³ Per F05/F06 RRA Decision, Directive 11.

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

⁵ Section 7.1.3.

⁶ Per F05/F06 RRA Decision, Directive 12, amended by F09F/10 RRA Decision, Directive 31.

- 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.⁶
 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.⁶
 4. Founding Partner Benefits and any CIS Credits under the ABS Contract.⁶
 5. Impact of load variance.⁷
 - 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/credit⁸ is to be calculated on the ending monthly balance in each deferral account. The interest rate used is BC Hydro's actual weighted cost of debt for its current fiscal year as proposed in the F12-F14 RRA filed on March 1, 2011.⁹

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 income¹⁰ will flow through the TIDA except where Annual Trade Income is below \$Nil and above \$200 million.
- An interest charge/credit¹¹ is to be calculated on the ending monthly balance in each deferral account. The interest rate used is BC Hydro's actual weighted cost of debt for its current fiscal year as proposed in the F12-F14 RRA filed on March 1, 2011.¹²

⁷ F09/F10 RRA Decision, Directive 31.

⁸ Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA NSA.

⁹ Section 7.1.3.

¹⁰ Per F05/F06 RRA Decision, Directive 13.

¹¹ Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA NSA.

¹² Section 7.1.3.