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December 3, 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)  
2004/05 and 2005/06 Revenue Requirements Application  
British Columbia Utilities Commission (BCUC) Order G-96-04  
Decision, October 29, 2004, Page 45, Directive No. 17 Page 218**

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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 Second Quarter Deferral Account Report (for the six-month period ending September 30, 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).

BC Hydro has used the forecasts included in the F2009/F2010 Revenue Requirements Application (F09/F10 RRA) of February 2008 as the "baseline" forecasts to determine the Deferral Account transfers included in the attached report. As indicated in BC Hydro's argument in the F09/F10 RRA, BC Hydro will address the level of the Deferral Account Rate Rider to be effective on April 1, 2009 in its F09/F10 RRA compliance filing.

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 Six Months Ended**

**September 30, 2008**

**(F2009 Q2)**

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## Schedule A

British Columbia Hydro and Power Authority  
Summary of Deferral Accounts  
For Six Months Ended September 30, 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 Sept 30, 2008 (6)
1	Heritage Deferral Account (HDA)	\$ 77.9	\$ 117.6	\$ (10.7)	\$ 5.0	\$ 189.8
2	Non-Heritage Deferral Account (NHDA)	51.6	68.6	(7.1)	2.6	115.6
3	Trade Income Deferral Account (TIDA)	(102.6)	(99.0)	14.1	(4.7)	(192.2)
4	BCTC Deferral Account	21.5	(7.5)	(3.1)	0.4	11.2
5	Total	<u>\$ 48.4</u>	<u>\$ 79.7</u>	<u>\$ (6.8)</u>	<u>\$ 3.3</u>	<u>\$ 124.5</u>

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7  
8  
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10 The transfers to the HDA and NHDA are primarily related to variances in energy costs from the forecast used  
11 in the F2009/F2010 Revenue Requirement Application of February 2008 consistent with the approach  
12 proposed by BC Hydro in section 1.2 of the F09/F10 RRA Evidentiary Update, filed in July 2008.

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The transfers to the HDA are largely related to higher prices for market energy purchases.

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17

The transfers to the NHDA are largely due to transactions with Powerex (Net Sales to Powerex - Future Use).  
The offsetting transactions with Powerex are recorded as part of Trade Income.

18  
19

Revenues from the Rate Rider are used to amortize the deferral accounts.

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21  
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The amortization is allocated to each deferral account based on the proportion of the ending F2008 deferral  
account balances.

23  
24  
25

Interest is calculated on the ending monthly balance (excluding the interest portion) 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.

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27

Due to minor rounding some totals may not add.

**SUMMARY OF GENERAL LEDGER ACCOUNT NUMBERS FOR DEFERRAL ACCOUNTS**

	<b>General Ledger (G/L) account numbers for Deferral Accounts</b>	<b>G/L account numbers for interest on Deferral Accounts</b>	<b>G/L account numbers for amortization on Deferral Accounts</b>	
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 Six Months Ended September 30, 2008  
 (\$ in millions)

Line No.	Particulars (1)	Actual (2)	RRA Plan (3)	Variance (4)
1	<b>Heritage Deferral Account</b>			
2	Cost of Energy - Total Heritage	\$ 335.4	\$ 275.6	\$ 59.8
3	Notional Water Rental (Displaced Hydro)	(0.3)	(7.3)	7.0
4	Mark to market (gains)/losses on derivatives	39.4	-	39.4
5	Significant unplanned major maintenance costs	12.2	-	12.2
6	Skagit Valley Treaty & Ancillary revenue	(8.0)	(7.8)	(0.2)
7	Amortization of unplanned deferred capital cost per			
8	BCUC Order No. G-53-02	2.9	3.4	(0.5)
9	Total	\$ 381.6	\$ 263.9	\$ 117.6
10				
11	<b>Non-Heritage Deferral Account</b>			
12	Cost of Energy - Total Non-Heritage	\$ 231.0	\$ 279.6	\$ (48.6)
13	Notional Water Rental (Displaced Hydro)	0.3	7.3	(7.0)
14	Mark to market (gains)/losses on derivatives	1.0	-	1.0
15	Net sales to Powerex - future use	0.2	(57.4)	57.6
16	FX gain on Powerex trade account	2.4	-	2.4
17	Subtotal	\$ 234.8	\$ 229.5	5.3
18	Customer Load Variance			63.2
19	Total			\$ 68.6
20				
21	<b>Trade Income Deferral Account</b>			
22	Trade Income			\$ 191.0
23	Excess over Cap for deferral account transfer			-
24				191.0
25	Less: Trade Income included in the RRA			92.0
26	Total			\$ (99.0)
27				
28	<b>BCTC Deferral Account</b>			
29	BCTC Asset Management Fee:			
30	Transmission Assets	\$ 45.5	\$ 45.5	\$ -
31	Generation Related Transmission Assets	4.2	4.2	0.0
32	Substation Distribution Assets	6.5	7.5	(1.0)
33	Net NITS and PTP Charges:			
34	Total NITS and PTP Charges	274.6	276.2	(1.5)
35	Less: Intersegment Revenues - NITS	(207.7)	(207.4)	(0.4)
36	Less: Intersegment Revenues - PTP	(28.3)	(28.3)	(0.0)
37	Less: Charges Included in HDA and TIDA	(25.9)	(21.3)	(4.6)
38	External PTP Revenues	(4.2)	(4.2)	0.0
39	Total	\$ 64.6	\$ 72.2	\$ (7.5)

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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 \*<sup>1</sup>.  
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\*<sup>3</sup>.
  - 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\*<sup>3</sup>.
  - 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)\*<sup>3</sup>.
  - 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\*<sup>1</sup>.
- 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\*<sup>1</sup>.
- 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\*<sup>1</sup>.
- 39 5. Amortization of unplanned deferred capital costs pursuant to Commission Order No. G-53-  
40 02\*<sup>1</sup>.
- 41 6. All net revenues from surplus hydro electricity sales\*<sup>2</sup>.
- 42 7. Skagit Valley Treaty revenues and ancillary services revenues\*<sup>2</sup>.

- 1 • An interest charge/credit<sup>\*3</sup> 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 <sup>\*1</sup> Per Commission Directive October 29, 2004 Page 30, Section 4.4 & Page 41 (Commission Findings)

5 <sup>\*2</sup> Per Commission Directive October 29, 2004 Page 31, Section 4.4 & Page 41 (Commission Findings)

6 <sup>\*3</sup> 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, \*<sup>1</sup>. 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 \*<sup>2</sup>. 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) \*<sup>2</sup>. 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\*<sup>1</sup>.

- 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\*<sup>1</sup>.
- 4 4. Founding Partner Benefits and any CIS Credits under the ABS Contract\*<sup>1</sup>.
- 5 • An interest charge/credit\*<sup>2</sup> 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 \*<sup>1</sup> Per Commission Directive October 29, 2004 Page 37, Section 4.5 & Page 41 (Commission Findings).

9 \*<sup>2</sup> 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\*<sup>1</sup> will flow  
7 through the TIDA except where Annual Trade Income is below \$Nil and above \$200 million.
- 8 • An interest charge/credit\*<sup>2</sup> 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 \*<sup>1</sup> Per Commission Directive October 29, 2004 Page 42, Section 4.6

12 \*<sup>2</sup> 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\*<sup>1</sup> 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 \*<sup>1</sup> 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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