



FOR GENERATIONS

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January 8, 2010

Ms. Erica M. Hamilton  
Commission Secretary  
British Columbia Utilities Commission  
Sixth Floor – 900 Howe Street  
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

**RE: Project No. 3698500  
British Columbia Utilities Commission (BCUC)  
F2009/F2010 Revenue Requirements Application (F09/F10 RRA)  
Amendment to the Employment Cost Regulatory Account Baseline**

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BC Hydro is writing to the BCUC to amend the F2010 baseline amount for the Employment Cost Regulatory Account from \$329.1 million, as shown in the April 24, 2009 Compliance Filing, to \$312.0 million for the reasons noted below.

In the F09/F10 RRA Decision (**the Decision**) dated March 13, 2009 (BCUC Order No. G-16-09), the BCUC directed BC Hydro to establish an Employment Cost Regulatory Account to capture variances from its planned total net employment costs in operating costs for the test years, and to file baseline forecasts for deferral and other regulatory accounts, including the Employment Cost Regulatory Account.

By letter dated April 24, 2009, BC Hydro provided the Employment Cost Regulatory Account baseline amounts of \$321.8 million and \$329.1 million for F2009 and F2010 respectively as per Directives 19, 20, and 46 of the Decision. The net employment baseline amounts were determined by applying the ratio of gross labour costs to gross total operating costs to the forecast net operating costs.

For F2010 accounting system changes have meant that some costs previously included in the calculation of gross labour costs are now being directly capitalized. As a consequence the comparison of actuals versus baseline amounts will not be valid as the ratio of gross labour costs to gross total operating costs would be inconsistent.

The change in the Employment Cost Regulatory Account baseline for F2010 establishes a baseline consistent with actuals while ensuring:

- Net operating cost forecasts remain unchanged; and
- The intent of the Employment Cost Regulatory Account to capture the net employment cost variance is achieved.

## **Detailed Background**

Subsequent to establishing the Employment Cost Regulatory Account baseline forecast, BC Hydro migrated its Construction Services department's transaction processing from JD Edwards to PeopleSoft. The Construction Services department is within the Field Operations business group and is a centralized provider of construction-related services. The migration from one accounting software platform to another was done in order to simplify the implementation of new systems in the future, and to provide a higher level of security given that the JD Edwards systems are no longer supported. As a result of the change, however, accounting for Construction Services costs is now different in F2010 than it was in F2009.

Prior to this migration, all costs incurred by Construction Services, including costs that are capital construction-related, were first accounted for as gross operating costs. The capital-related costs were then allocated to capital projects through internal service charges (Line 7 on Table 1 below). This effectively transferred costs attributable to capital from operating expenses into capital. After the migration to PeopleSoft, costs that can be directly attributable to capital construction are now charged directly to capital projects (i.e., they no longer flow through gross operating costs). Costs that are indirectly attributable to capital construction are now charged to capital projects through overheads capitalized. It is important to note that the change in methodology does not impact the forecast F2010 net operating expense as it remains the same under either, the JD Edwards system or the PeopleSoft system; however, it does impact the F2010 Employment Cost Regulatory Account baseline.

Table 1 below shows the original Employment Cost Regulatory Account baseline calculation under JD Edwards and the amended Employment Cost Regulatory Account baseline calculation under PeopleSoft for F2010 where the ratio of Total Gross Operating Labour Costs to Total Gross Operating Costs changes from 48.4 per cent to 45.9 per cent (line 3/line10).

**Table 1: Calculation of Amended Employment Cost Regulatory Account Baseline**  
**\$ million**

Line No.	Gross O&M by resource:	F2010				
		JD Edwards		PeopleSoft		
			Ratio (Line 3/ Line 10)	Internal Services Directly Capitalized	Ratio (Line 3/ Line 10)	
	\$		\$	\$		
1	Labour *	\$ 512		\$ 512	\$ 512	
2	Construction Services - Labour	43		43	(22)	22
3	Total Gross Operating Labour Costs	555	48.4%	555	(22)	534
4	Materials	52		52	(6)	47
5	Services	417		417	(6)	411
6	Bldg maintenance	24		24	(1)	23
7	Internal service charges	(50)		(50)	50	-
8	Other	16		16		16
9	ABS	133		133		133
10	Total Gross Operating Costs	1,148		1,148	16	1,164
11	Operating costs disallowed by BCUC	(20)		(20)		(20)
12	External recoveries	(238)		(238)		(238)
13	Overheads capitalized	(210)		(210)	(16)	(225)
14	Net Operating Costs*	\$ 680		\$ 680	\$ -	\$ 680
15						
16	<b>Net Employment Costs</b>					
17	<b>(Ratio x Net Operating Costs)</b>		<b>\$ 329.1</b>			<b>\$ 312.0</b>

18  
19 \* Labour includes \$51 million of non-current pension costs.  
Numbers may not add due to rounding.

Table 2 below is an update of the table included in the F09/F10 RRA Compliance Filing of April 24, 2009, to include the revised Employment Cost Regulatory Account baseline amount for F2010 (highlighted).

**Table 2: Baseline Amounts for Deferral and Other Regulatory Accounts**

(\$ million)	F2009 Order G-16-09	F2010 Order G-16-09
<b>Heritage Payment Obligation</b> (variances captured in HDA)	406.4	432.2
<b>Non-Heritage COE Subject to Deferral</b> (variances captured in NHDA)	628.0	688.5
<b>Trade Income</b> (variances captured in TIDA)	199.0	199.0
<b>BCTC Costs</b> (variances captured in BCTCDA)		
Transmission Asset Maintenance Fee	90.9	92.4
GRTA Asset Management Fee	8.3	8.2
SDA Asset Management Fee	15.0	14.7
Net NITS and PTP Charges	43.6	41.0
External PTP Revenues	(8.4)	(8.3)
<b>Revenues</b> (variances captured in NHDA)	2,817.2	3,054.1
<b>Current Operating Costs</b>		
Non-Current Pension Cost (Income)	N/A	(51.4)
Storm Restoration Costs	5.3	5.3
Employment Cost	321.8	312.0
<b>Taxes (Grants in Lieu and School Taxes)</b>	168.4	178.1
<b>Amortization on Capital Additions</b>	20.5	64.8
<b>Total Finance Charges</b>	448.1	498.5

BC Hydro amends the F2010 Employment Cost Regulatory Account baseline amount to \$312.0 million for the purpose of the Employment Cost Regulatory Account calculation. This amendment will ensure that actual F2010 net labour costs can be properly compared to the amended baseline net labour costs as both calculations will be determined under the same method.

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

Yours sincerely,



Joanna Sofield  
Chief Regulatory Officer

c. BCUC Project No. 3698500 (F09/F10 RRA) Registered Intervenor Distribution List.