

Financial Overview

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Objectives

- ◆ To review the calculation of BC Hydro's revenue requirement
- ◆ To illustrate the impact of key cost drivers on BC Hydro's Revenue Requirement
- ◆ To explain the methodology for allocating corporate costs

Revenue Requirement

- ◆ A Revenue Requirement is the sum of:
1. Costs needed to meet our obligation to serve
 2. + Allowed return on equity
 3. - Trade Income
 4. - Earnings from revenue streams other than domestic rates
- = Revenue needed from domestic ratepayers

Shortfalls for F2005 and F2006

(\$M)

\$M	F2005 Plan	F2006 Plan
Forecast expenses	\$2,479	\$2,508
+ <u>Return on equity (ROE)</u>	<u>427</u>	<u>442</u>
Total expenses including allowed ROE	2,906	2,950
- Trade Income	(80)	(89)
- <u>Other revenue</u>	<u>(205)</u>	<u>(167)</u>
Revenue needed from domestic ratepayers	2,621	2,694
<u>Revenue anticipated at current rates</u>	<u>2,444</u>	<u>2,463</u>
Revenue shortfall	<u>\$ (177)</u>	<u>\$ (231)</u>
Required rate increase	7.23%	2.00%

Source: Data from Table 1-4, Chapter 1, Volume I, BC Hydro Revenue Requirements 2004/05 and 2005/06 Application

Translation of Cost Drivers to BC Hydro's Income Statement

Increased cost of energy

Increased costs relating to management of environmental and First Nations related issues

Increased costs to be incurred as a result of the creation of BCTC

Increased costs to maintain reliability of the system (ageing assets)

Increased pension and post retirement benefit costs

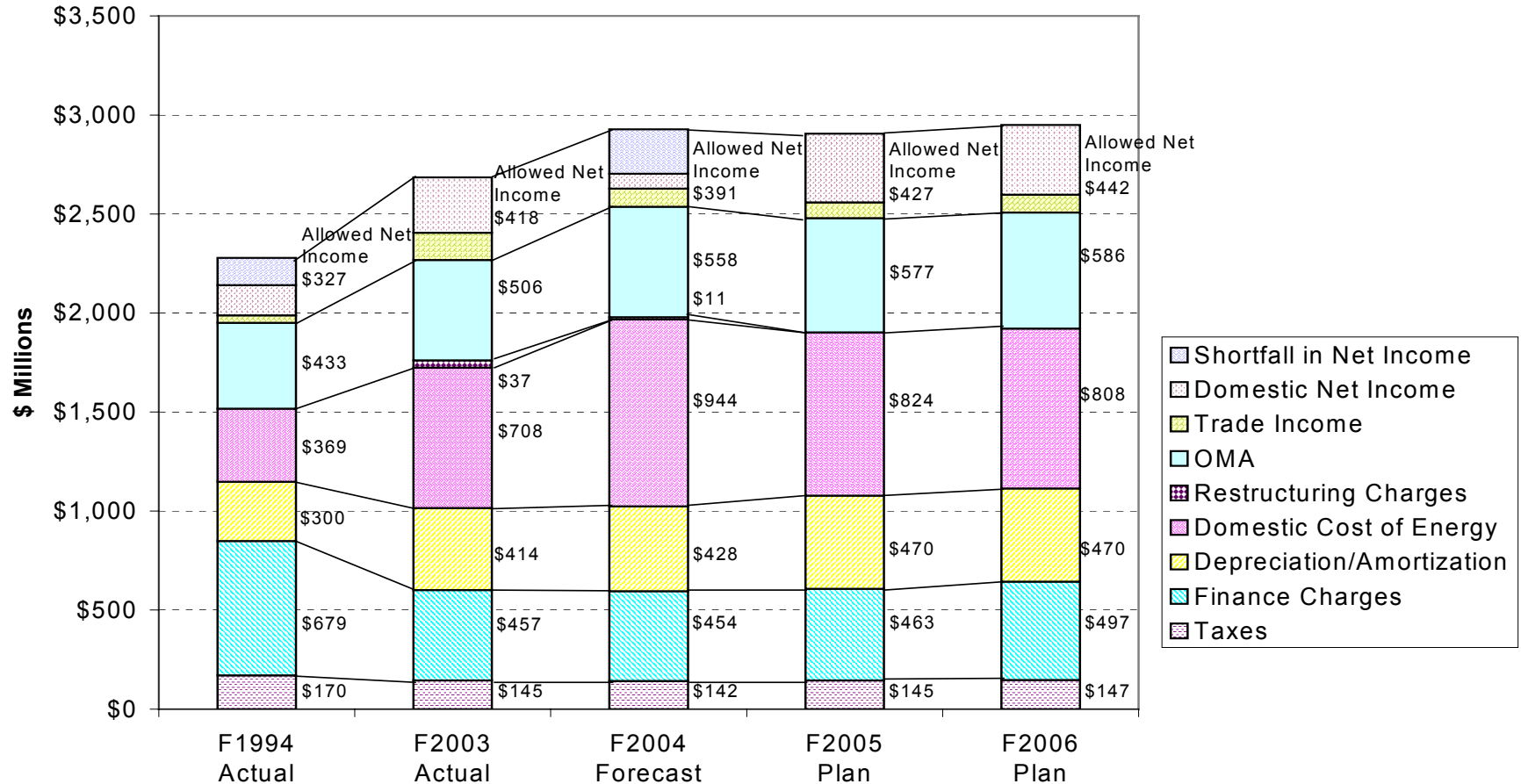
Increasing investment in Power Smart

Increasing finance costs

CONSOLIDATED STATEMENT OF OPERATIONS	
FOR THE YEARS ENDING MARCH 31	
(\$M, includes rate increase)	
	Planned 2006
REVENUES	
Domestic	2,539
Intersegment revenues	91
	2,630
EXPENSES	
Domestic energy costs	808
BCTC wholesale transmission service	61
BCTC service fee	117
Operations, maintenance and administration	408
Depreciation and amortization	470
Taxes	147
Finance charges	497
DOMESTIC NET INCOME	\$353
Trade Income	89
TOTAL NET INCOME	\$442

Source: Table 2-3, Chapter 2, Volume I

Comparison of Revenue Requirement Cost Components



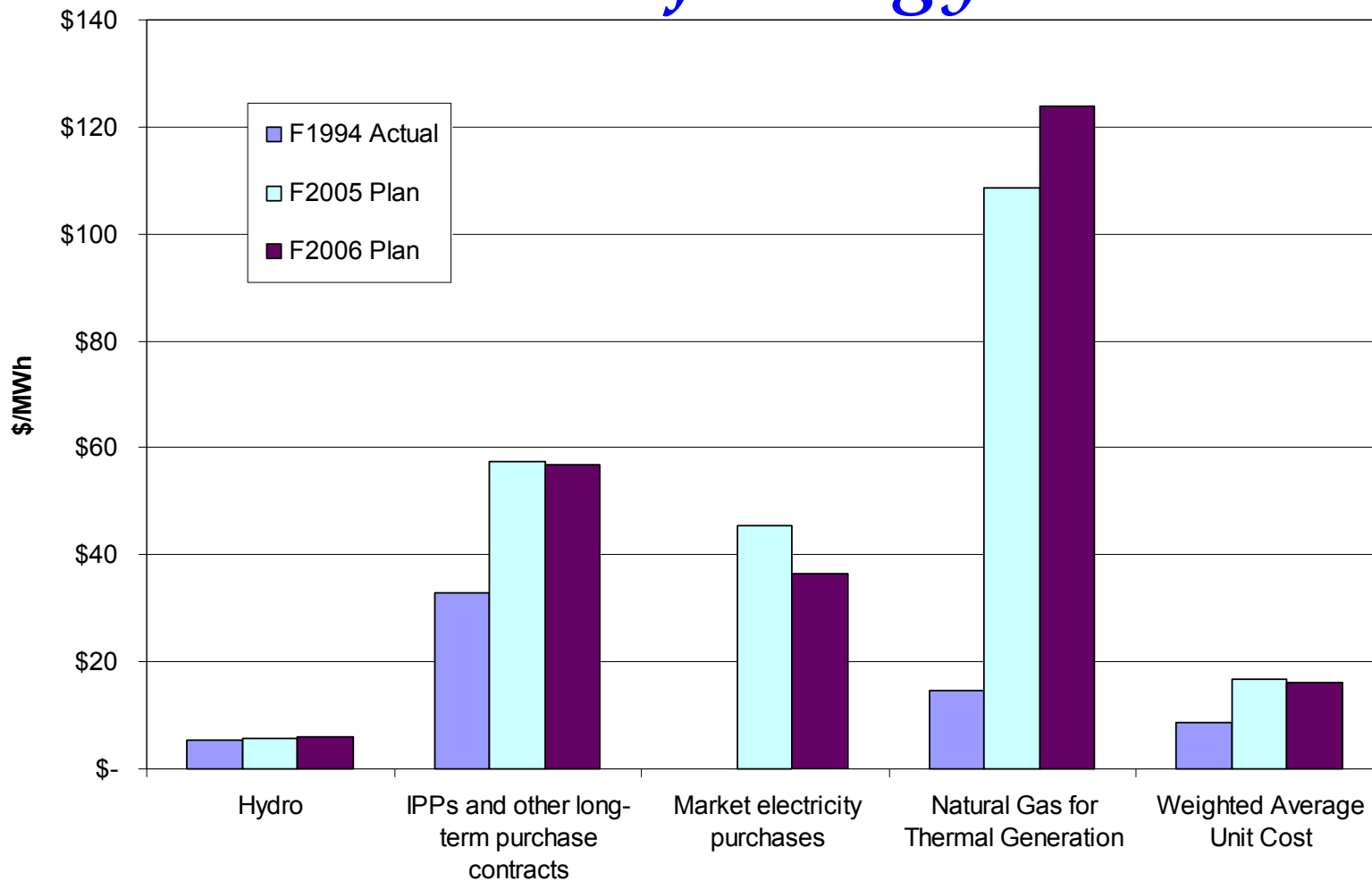
Source: Table 2-3, Chapter 2, Volume I and Table 1, Appendix J, Volume II, BC Hydro Revenue Requirements 2004/05 and 2005/06 Application

Cost of Energy Comparison

	Cost of Energy (\$M)				
	F1994 Actual	F2003 Actual	F2004 Forecast	F2005 Plan	F2006 Plan
Hydro	\$ 217	\$ 258	\$ 246	\$ 265	\$ 281
IPPs and other long-term purchase contracts	92	290	378	378	397
Other Energy Purchases	-	54	249	105	55
Net Purchases from Powerex Natural Gas for Thermal Generation	- 48	50 28	- 28	- 28	- 24
Non-Integrated Transmission charges and other expenses	11 1	14 14	13 30	14 34	15 36
Total Domestic Energy Costs	\$ 369	\$ 708	\$ 944	\$ 824	\$ 808

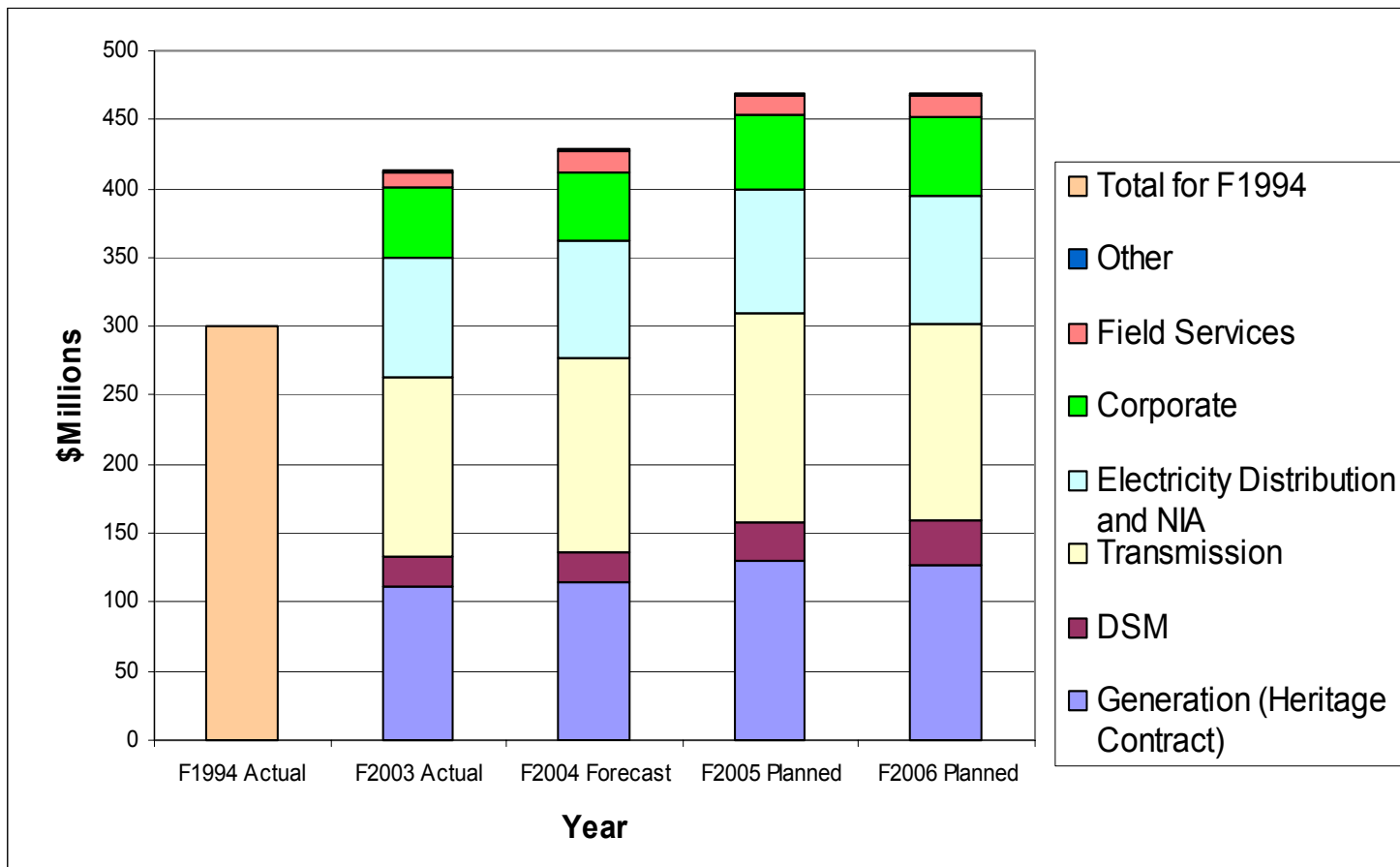
Source: Table 7, Appendix J, Volume II, and Schedule A-9, Chapter 2, Volume I,
BC Hydro Revenue Requirements 2004/05 and 2005/06 Application.

Unit Cost of Energy \$/MWh



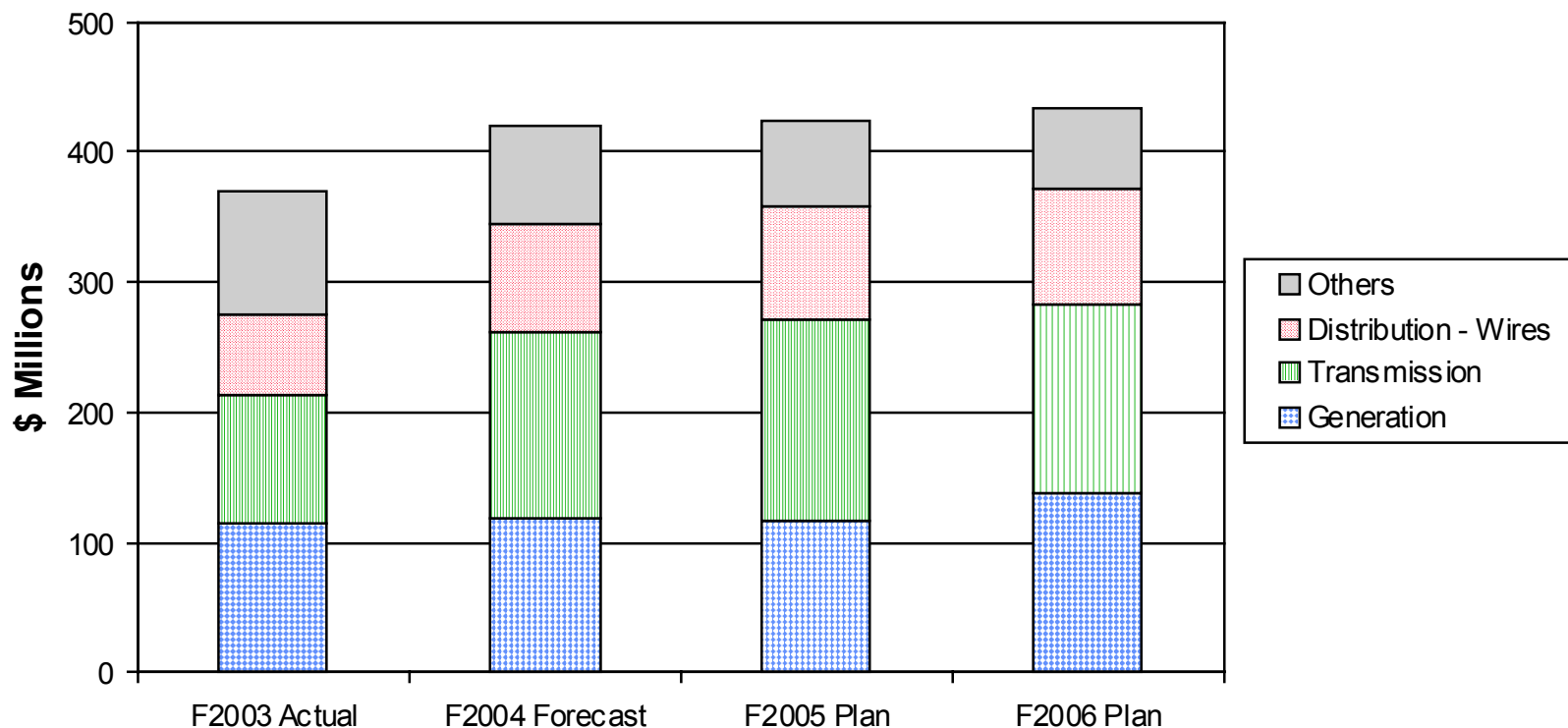
Source: Table 8, Appendix J, Volume II, and Schedule A-9, Chapter 2, Volume I, BC Hydro Revenue Requirements 2004/05 and 2005/06 Application.

Depreciation Expense



Source: Schedule B4, Chapter 2, Volume I, BC Hydro Revenue Requirements 2004/05 and 2005/06 Application.

Total Sustaining Capital Expenditures

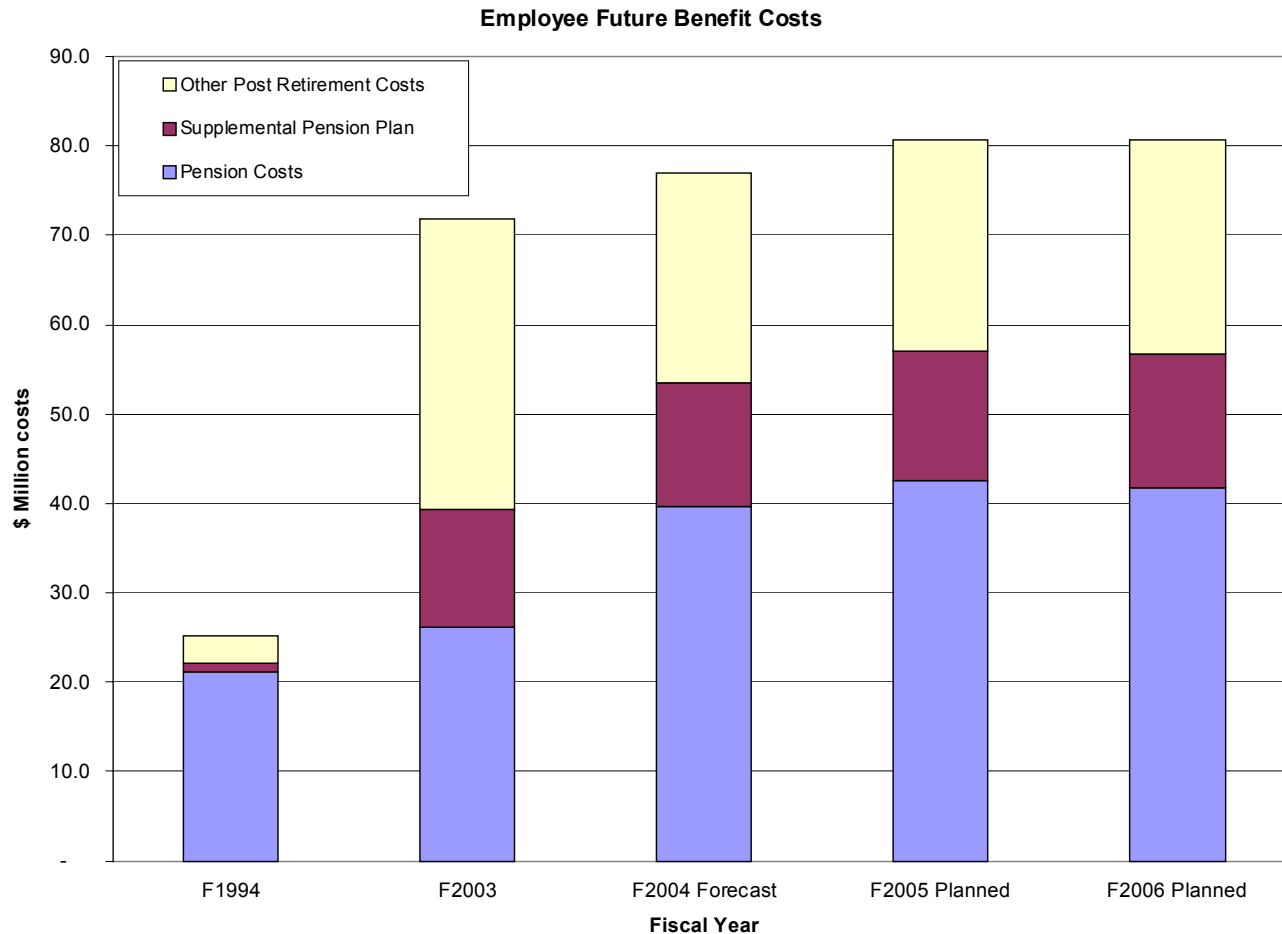


Source: Schedule D's, Chapter 2, Volume I, BC Hydro Revenue Requirements 2004/05 and 2005/06 Application.

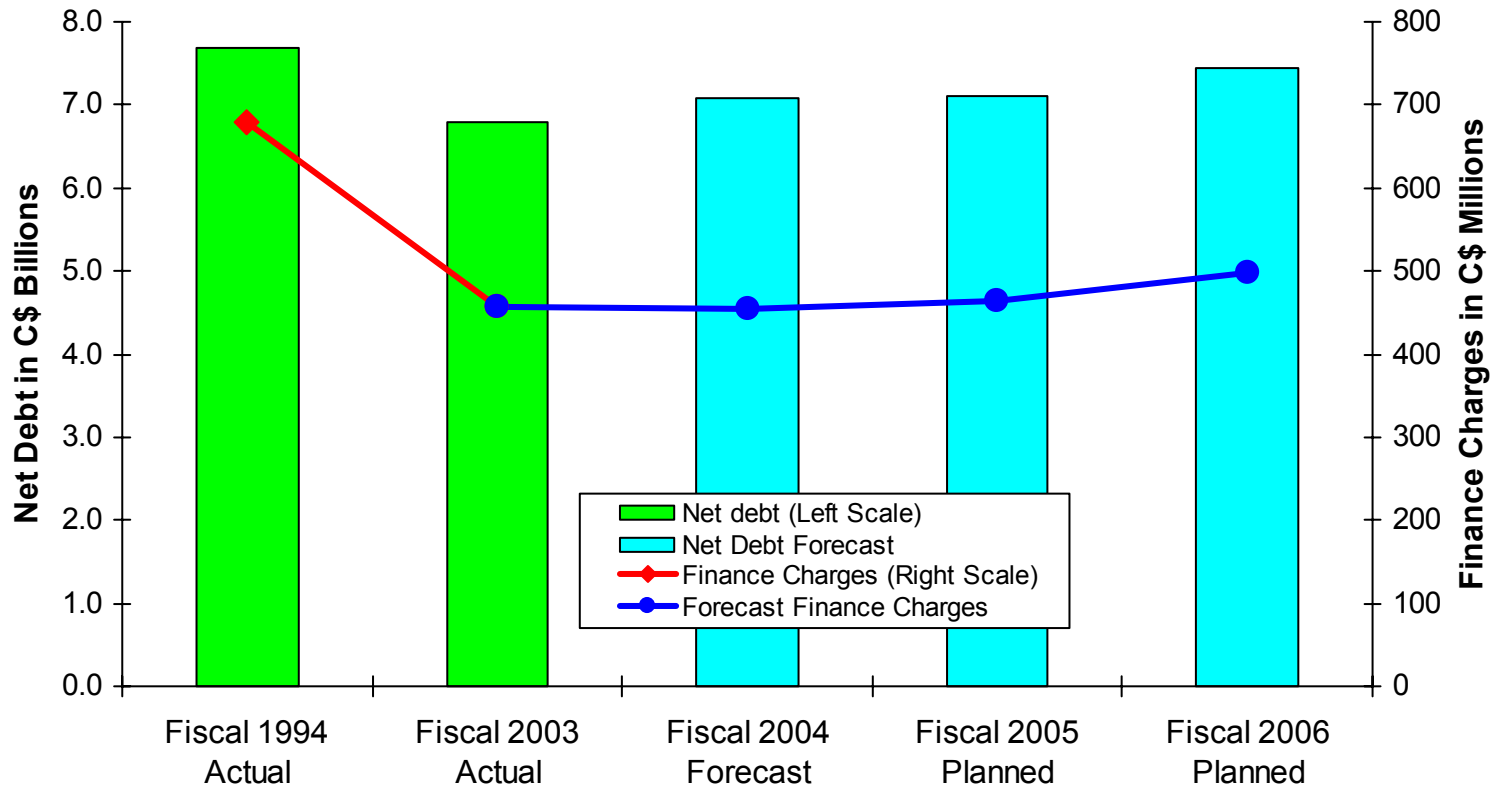
Operations, Maintenance and Administration Cost Drivers

- ◆ The main drivers of OMA cost increases are:
 - Pension and post-retirement benefit costs:
 - ❖ Accounting changes require all forms of post-retirement benefit plans to be accounted for on an accrual basis
 - ❖ plan improvements
 - ❖ decline in value of pension fund assets
 - ❖ increase in pension liability due to employees retiring earlier and living longer
 - Increases in maintenance costs to maintain reliability of ageing assets
 - Incremental costs associated with the establishment of corporate functions in BCTC
 - Inflation
 - Increased customer base

Pensions are a significant driver of OM and A cost increases



Finance Charges offset cost increases over the last 10 years but are now starting to rise



Components of Equity and Calculation of Allowed ROE

(\$ millions)	F1994	F2003	F2004	F2005	F2006
	Actual	Actual	Forecast	Plan	Plan
Retained earnings at beginning of year	1,197	1,529	1,609	1,648	1,964
Net income	190	418	167	427	442
Payment to the province	(245)	(338)	(128)	(344)	(344)
Asset retirement obligation adjustment (Note 1)	-	-	-	233	-
<u>Special dividend to the province Re BCTC (Note 2)</u>	-	-	-	-	(20)
Retained Earnings at End of Year	\$ 1,142	\$ 1,609	\$ 1,648	\$ 1,964	\$ 2,042
Deferred revenue	104	258	276	296	320
Contributions arising from the Columbia River Treaty	286	203	193	184	175
Contributions in aid of construction	501	609	609	625	643
Rate Stabilization Account		21	-	-	-
Net Income Shortfall	120				
Equity	\$ 2,153	\$ 2,700	\$ 2,726	\$ 3,069	\$ 3,180
Allowed rate of return on equity	15.23%	15.47%	14.33%	13.91%	13.91%
Allowed return on equity	\$ 327	\$ 418	\$ 391	\$ 427	\$ 442

Notes:

1. This adjustment is explained in Revenue Requirement chapter 2, section 3.7.3.
2. The special dividend to the province was paid in F2004-F2006. It is shown in F2006 only because BCTC is consolidated with BC Hydro in F2004 and F2005.

Source: 1994 BC Hydro Annual Report and Table 2-4, Chapter 2, Volume I, BC Hydro Revenue Requirements 2004/05 and 2005/06 Application.

Allocation of Corporate Costs

Direct Charges

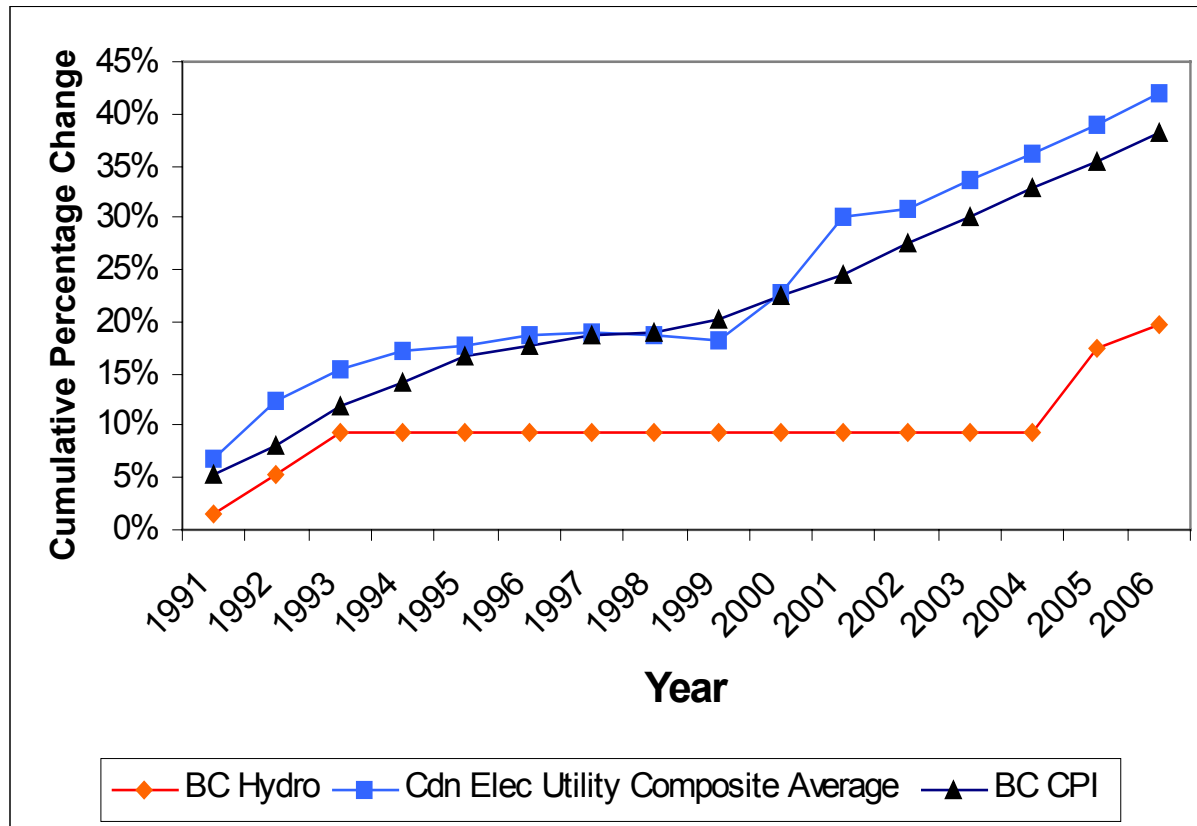
- ◆ Legal, Property Services, Regulatory, and Corporate Communication directly charge for services rendered.
- ◆ Depreciation and finance costs associated with assets owned by BCH Service Asset Company (SAC) are charged via loadings on the direct charges from ABS.

Allocated Costs

- ◆ All remaining corporate costs are allocated based on appropriate factors, for example:
 - Headcount for Corporate HR costs
 - Payroll cost for non-current service portion of employee benefit costs
 - Occupied office space for corporate taxes and residual depreciation on corporate assets
 - OMA costs and sustaining capital expenditures for general costs

Source: Chapter 2, Section 7, Volume I, BC Hydro Revenue Requirements 2004/05 and 2005/06 Application.

BC Hydro and Canadian Electric Utility Rate Increases: 1991-2006



Source: Canadian electric utility composite average is derived using data from the CEA Canadian electric utility rate database.

Chart is from Figure 1, Appendix D, Volume II, BC Hydro Revenue Requirements 2004/05 and 2005/06 Application.

Comparison of 2003 Residential Electric Rates (Hydro Quebec Study)

	cents/kW h
New York	30.76
San Francisco	23.60
Boston	18.26
Detroit	14.51
Charlottetown	13.10
Miami	13.02
Houston	12.89
Edmonton	12.84
Chicago	12.47
Halifax	11.20
Regina	10.91
Moncton	10.83
Toronto	10.32
Seattle	10.30
St. John's	9.78
Portland	9.59
Nashville	9.51
Ottawa	9.40
Vancouver: post-increase	7.38
Montreal	6.94
Winnipeg	6.87
Vancouver: pre-increase	6.75
Average	12.56

Source: Table 1A, Appendix D, Volume II, BC Hydro 2004/05 and 2005/06 Revenue Requirements Application.

Comparison of 2003 Commercial Electric Rates (Hydro Quebec Study)

	cents/kW h
San Francisco	28.72
New York	27.81
Boston	17.27
Detroit	13.83
Charlottetown	11.62
Chicago	11.45
Miami	11.10
Toronto	10.66
Houston	10.59
Edmonton	10.16
Halifax	9.70
Moncton	9.61
Nashville	9.19
Regina	8.92
Seattle	8.25
Ottawa	7.84
St. John's	7.23
Montreal	7.01
Portland	6.52
Vancouver: post-increase	5.71
Winnipeg	5.28
Vancouver: pre-increase	5.22
Average	11.33

Source: Table 2A, Appendix D, Volume II, BC Hydro 2004/05 and 2005/06 Revenue Requirements Application.

Comparison of 2003 Industrial Electric Rates (Hydro Quebec Study)

	cents/kW h
New York	23.46
San Francisco	23.12
Boston	14.25
Toronto	9.42
Miami	8.53
Seattle	8.24
Edmonton	7.65
Detroit	7.54
Chicago	7.53
Ottawa	7.26
Charlottetown	7.05
Halifax	6.58
Houston	6.29
Nashville	6.23
Moncton	5.83
Portland	5.49
Regina	5.38
Montreal	4.40
St. John's	4.36
Vancouver: post-increase	4.20
Vancouver: pre-increase	3.84
Winnipeg	3.36
Average	8.37

Source: Table 3A, Appendix D, Volume II, BC Hydro 2004/05 and 2005/06 Revenue Requirements Application.

Thank you for your time.