
Revenue Requirement Application
2004/05 and 2005/06



Volume 1

Chapter 2B.

BC Hydro Deferral Accounts

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1 Introduction

2 As noted in chapter 1, BC Hydro applies in this application for Commission approval of four
3 new deferral accounts, being the "Heritage Payment Obligation Deferral Account", (HDA),
4 the "Trade Income Deferral Account", and the "BCTC Transition Deferral Account". In
5 addition, BC Hydro is applying for a deferral account similar to the HDA for components that
6 do not fall within the Heritage Payment Obligation, the "Non-Heritage Deferral Account". This
7 section elaborates on these proposed deferral accounts.

1 **2 Heritage Payment Obligation Deferral Account**

2 Section 7 of HSD #2 requires the Commission to allow BC Hydro to establish deferral
3 account mechanisms for the purpose of recording differences between the forecasts of the
4 Heritage Payment Obligation and Trade Income used to establish rates, and the actual,
5 after-the-fact Heritage Payment Obligation and Trade Income.

6 Regarding the Heritage Payment Obligation Deferral Account (HDA), BC Hydro proposes
7 that it record variances between the following components of the Heritage Payment
8 Obligation, as defined in schedule A to appendix A of HSD #2:

- 9 1. cost of energy (all costs in (a)(i), except those arising from changes in customer load);
- 10 2. variable costs related to thermal generation (part of (a)(ii));
- 11 3. unplanned major maintenance expenditures greater than \$1 million related to single
12 event equipment or infrastructure failure or weather related events (part of (a)(ii));
- 13 4. any incremental annual impact where the sum of depreciation and finance charges is
14 greater than \$1 million caused by unplanned major capital expenditures related to single
15 event equipment or infrastructure failure or weather related events (part of (a)(iii));
- 16 5. amortization of unplanned deferred capital costs pursuant to BCUC Order G-53-02 (part
17 of (a)(iv)); and
- 18 6. net revenues from surplus hydro electricity sales (all costs in (b)(iii)).

19 Each of the foregoing is proposed to be included in the HDA because they are components
20 that are largely out of BC Hydro's control. Note that "variable costs related to thermal
21 generation" refers to maintenance and operating costs arising primarily from the operation of
22 Burrard Generating Station. Variations to planned operations of Burrard are driven by the
23 same factors that make cost of energy so volatile, which is why BC Hydro proposes to
24 include it in the HDA. Unplanned, single-event capital related costs (i.e. depreciation and
25 finance charges) or maintenance expenditures arising from weather or equipment failure are
26 included in the HDA as an alternative to building contingencies into the revenue
27 requirement. Revenues from the sale of surplus hydro electricity sales are forecast as zero
28 for the period of this Application. Not including them in the HDA would mean that ratepayers
29 would not get the benefit of any such revenues that did arise.

1 3 Non-Heritage Deferral Account

2 The components of the HDA, as now proposed, result from BC Hydro's conviction that it
3 should assume financial responsibility for all controllable risks but create deferral accounts
4 for non-controllable risks. This logic applies equally to non-heritage payment obligations.
5 Accordingly BC Hydro is applying for a similar deferral account (the Non-Heritage Deferral
6 Account (NHDA)) for the following additional components. The basis for this application is
7 the same as under the HDA, that is, components that are non-controllable by BC Hydro. As
8 with the HDA, these amounts are variances in actual revenues or costs compared to the
9 amounts forecast. These components are:

- 10 1. cost of Energy – all non-HPO energy costs except those arising from changes in
11 customer load;
- 12 2. significant unplanned major maintenance expenditures greater than \$1 million related to
13 single event equipment or infrastructure failure;
- 14 3. any incremental annual impact where the sum of depreciation and finance charges is
15 greater than \$1 million caused by significant unplanned major capital expenditures
16 related to single event equipment or infrastructure failure, or weather related events;
- 17 4. significant unplanned storm restoration response expenditures. A Storm event includes
18 extraordinary weather or other events that trigger the activation of a Provincial Regional
19 Emergency Operation Centre or the Provincial Emergency Co-ordination Centre; and
- 20 5. Founding Partner Benefits and any CIS Credits under the ABS Contract.

21 The amounts transferred to the NHDA for components 1 and 4 could be either charges or
22 credits. For components 2 and 3 there will only be charges and for component 5 there will
23 only be credits.

24 BC Hydro is applying for balances in all the deferral accounts to attract an interest charge or
25 credit at BC Hydro's average borrowing cost.

26 BC Hydro proposes that no cap or limit be set on the HDA or NHDA, but that instead they be
27 cleared through an adjustment to BC Hydro's revenue requirement, upon application, and in
28 light of balances that may have accrued in other BC Hydro deferral accounts and
29 BC Hydro's overall financial situation. BC Hydro also proposes that by June 30 of each

- 1 year, commencing in 2005, that it publicly report to the Commission the variances for the
- 2 previous fiscal year in the components of the HDA and the NHDA, and their balances.

1 4 Trade Income Deferral Account

2 Regarding the Trade Income Deferral Account, BC Hydro proposes that it be used to record
3 differences between forecast and actual Trade Income, as that expression is defined in
4 HSD #2. In this way any losses on the year or any extraordinary windfalls that would cause
5 Powerex audited net income to exceed \$200 million dollars would not be carried forward to
6 future periods, consistent with the government's response to the Heritage
7 Recommendations. As with the Heritage Payment Obligation Deferral Account, the Trade
8 Income Deferral Account would be cleared through an adjustment to BC Hydro's revenue
9 requirement, upon application, and each year BC Hydro would publicly report to the
10 Commission the variance for the previous fiscal period in Trade Income, and the balance of
11 the Trade Income Deferral Account.

1 5 BCTC Transition Deferral Account

2 As summarily described above and as elaborated on in chapter 6, BCTC will be providing
3 wholesale transmission services on behalf of BC Hydro and under BC Hydro's existing tariffs
4 until April 1, 2005 (phase 1). At that time it expects to begin providing WTS on its own
5 behalf under its new tariffs, and on behalf of BC Hydro under BC Hydro's new tariffs (phase
6 2). This application assumes that the total net cost to BC Hydro of providing and purchasing
7 WTS services in phase 2 will be the same as the total net cost of providing those services in
8 phase 1, and that in consequence BC Hydro's transmission revenue requirement for F2006
9 will remain as it is presented in this application, and that no further adjustment to BC Hydro's
10 rates will be required other than as applied for in this application. That assumption will not
11 be tested until BCTC applies for and receives Commission approval for its first independent
12 revenue requirement for F2006. In consequence BC Hydro applies in this application for
13 approval to record any variances between its current forecast of net WTS costs in F2006
14 and its adjusted forecast of its net WTS costs in F2006 based on the outcome of BCTC's
15 revenue requirement proceeding, and for approval to carry that adjustment forward to
16 subsequent rate periods.