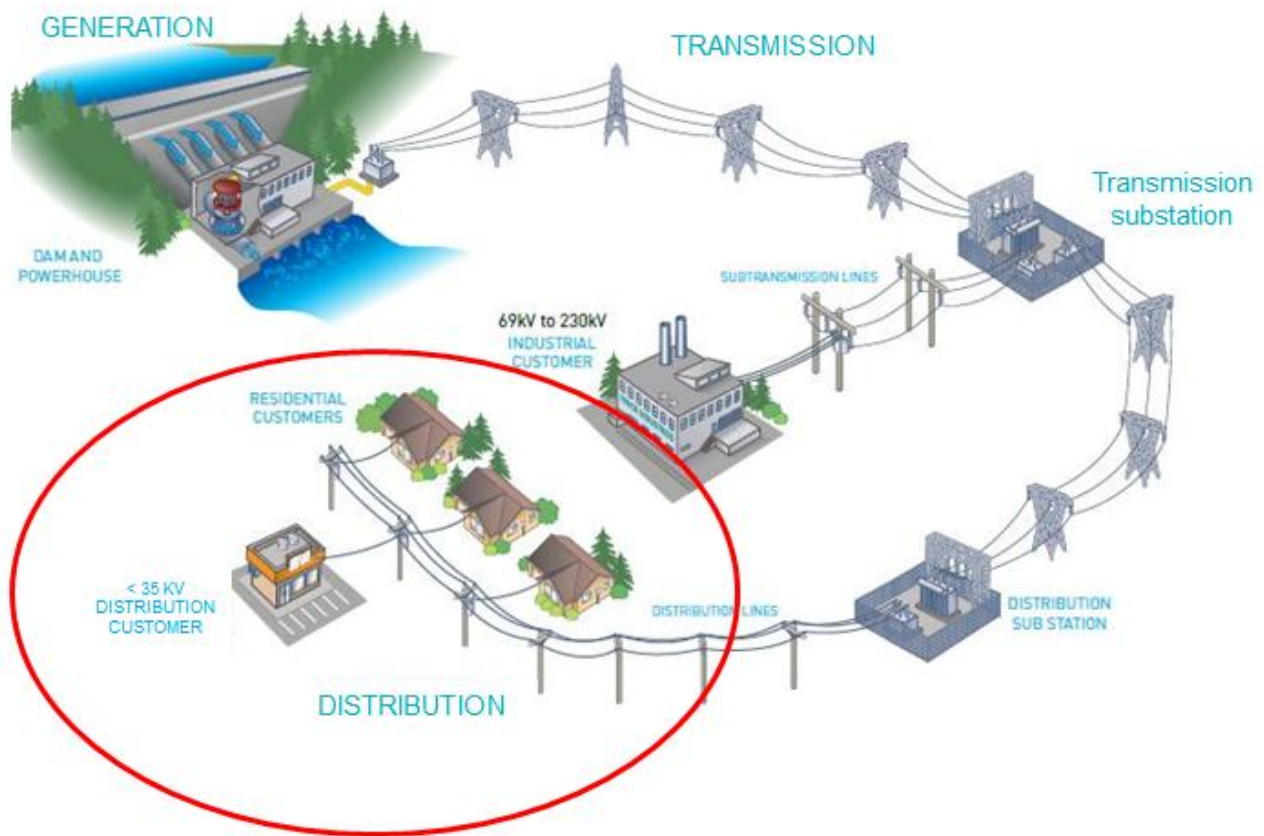


2015 Rate Design Application

D-Wires Extension Policy
Customer Workshops: July/August 2014



Discussion Guide Distribution Extension Policy Review

OVERVIEW

Currently, BC Hydro is consulting with and engaging customers for the next Rate Design Application (2015 RDA), which will be filed with the British Columbia Utilities Commission (BCUC) in summer 2015. A rate design application is a proposal to change to how rates are structured for residential, commercial and industrial customers and how costs are allocated between different “rate classes” of customers. In addition to distribution extension policy, the 2015 RDA will also update the Terms and Conditions in [BC Hydro’s Electric Tariff](#). The last time BC Hydro filed a rate design application for BCUC review and approval was in 2007.

BC Hydro’s Electric Tariff: bchydro.com/about/planning_regulatory/2015-rate-design/resources.html

ENGAGEMENT PURPOSE

As part of the preparation for this RDA filing, BC Hydro is conducting workshops and providing preliminary information on specific topics to targeted customer groups. The engagement purpose is to obtain customer feedback on key issues and scope items that have been identified for review.

WORKSHOP AGENDA

BC Hydro has identified a need to engage with commercial customers about sections of the Electric Tariff that deal with new connections to the distribution system. Refer to agenda below.

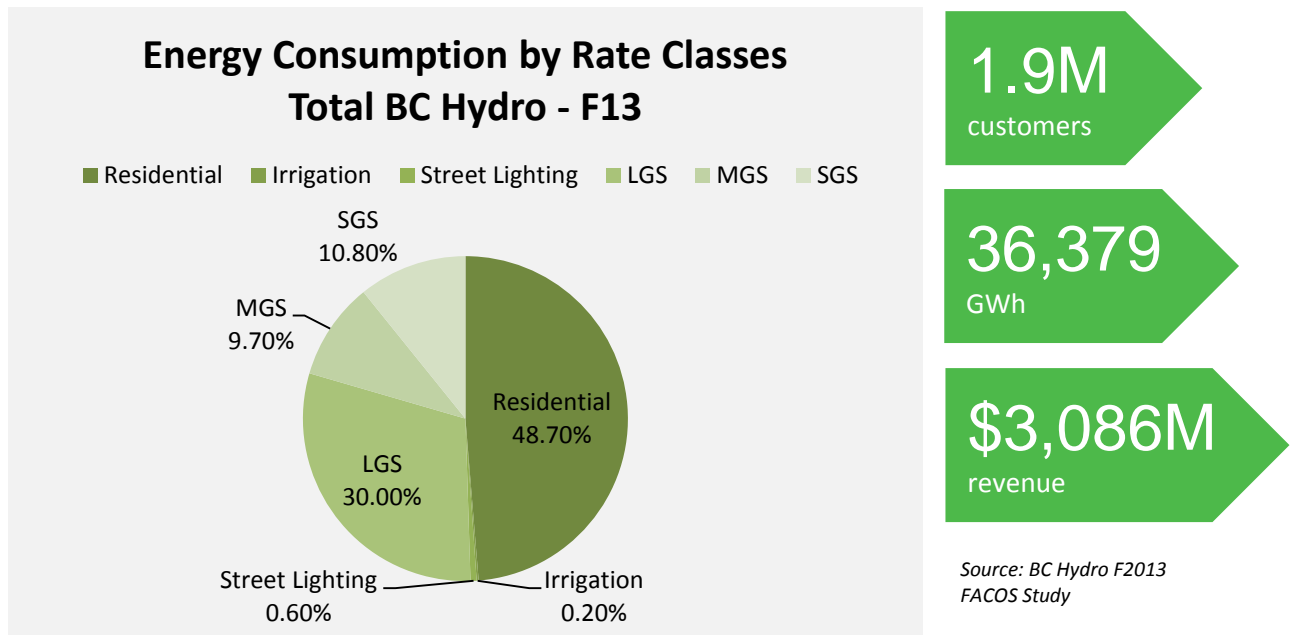
- 1 **RDA Summary**
 - a. Executive Summary
 - b. Overview
 - c. Legal / Regulatory
- 2 **RDA context**
 - a. Distribution System
 - b. Overview
- 3 **Customer Characteristics**
 - a. Customer Extension Cost Allocation Issues
 - b. Extensions – Illustrative
 - c. BC Hydro Maximum Contribution
 - d. Schedule & Cost Allocation issues
 - e. Extension Examples
 - f. Extension Fee Refunds
 - g. Terms and Conditions Updates
- 4 **RDA Timeframe & Next Steps**
- 5 **Questions & Comments**

ABOUT THIS DISCUSSION GUIDE

This Discussion Guide provides information about the connection of new loads to the distribution system under Section 8 “Distribution Extensions – 35 kV or less” of the Electric Tariff. This Guide should be read prior to attending the workshop for background and reference to provide important legal and regulatory context. The Guide also identifies key scope items for which BC Hydro is requesting your feedback.

DISTRIBUTION CUSTOMER CHARACTERISTICS

The BC Hydro distribution system serves electricity, at a voltage of 35 kV or less, to over 1.9 million residential and commercial customers. Thousands of new customers are connected to the system each year.



LEGAL/REGULATORY CONTEXT

- BC Hydro believes that the Electric Tariff, including Section 8 which governs distribution extensions, is in scope for the 2015 RDA;
- Any BC Hydro Distribution proposals would be informed by the 1996 SET guidelines, the prior BCUC 2007 RDA decision, subsequent developments such as Direction 7 to the BCUC, and customer engagement;
- Appendix A to Direction 7 is the Heritage Contract, which provides that BC Hydro’s rates are established on a cost of service basis, and thus the incremental cost of energy is set aside and not included in the distribution extension cost calculation.

2007 RDA CONTEXT

As per Appendix A to Order no.G-20-08, the BCUC approved the Maximum BC Hydro Contributions but recommended that BC Hydro address to the following in the next RDA:

- The selection and definition of a guiding principle for the determination of Allowances;
- How the Allowances should be calculated;
- The period to be covered by the analysis; and
- The suitable discount rate to be used.

THE MAXIMUM BC HYDRO CONTRIBUTION

Section 8 of the Electric Tariff states that BC Hydro will construct an extension of the distribution system to provide permanent service to new customers. The customer must pay an “Extension Fee” equal to the estimated cost of building the new extension less an offset amount that BC Hydro contributes toward the cost. This offset amount is termed BC Hydro’s Contribution. The table below shows the Maximum BC Hydro Contribution by Customer Class:

Customer Class	Maximum BC Hydro Contribution
Residential	\$1475 per single family dwelling
General Service	\$200 per kW of billing demand
Irrigation	\$150 per kW of billing demand
Street Lighting	\$150 per fixture

In the table above, the calculation of the allowances is driven by the three variables outlined by the BCUC:

1. Allocation Factors
2. The discount rate (8% nominal)
3. The discount period used for the calculation (20 years)

SCOPE ISSUES FOR ENGAGEMENT

Adjusting any of these variables will impact the calculation of the Maximum BC Hydro Contribution:

Distribution Revenue Requirements

- Capital Costs
- Operating and Maintenance
- Deferral Accounts
- Grants in Lieu



- *Costs are used as a proxy for revenue*
- *Capital costs include depreciation, finance, and return on equity*
- *The customer contribution reflects the net present value of distribution Capital related revenue recovered in electric rates during the first 20 years of service*
- *\$347.5 M was used for allowances per BCUC order G-20-08 in capital related costs*

1. Allocation Factors

- Changing the allocation of costs would either increase or decrease the contribution.

2. Discount Rate:

- The maximum BC Hydro contributions shown in the tariff for each customer class are based on an 8% discount rate from the 2007 RDA. BC Hydro believes the current Weighted Average Cost of Capital of 7% to now be the right discount rate. Recalculating the contributions on the basis of a 7% discount rate (assuming no other changes) would increase the BC Hydro contributions; they remain based on 8% pending the outcome of the 2015 RDA.
- Increasing the discount rate would decrease the contribution.
- Decreasing the discount rate would increase the contribution.

3. Discount Period:

- While the average estimated service life of distribution plant is 40 years, 20 years was used instead of 40 to reserve a portion of the future revenue stream to cover some upstream improvements (such as substations work). BC Hydro is less confident on the current accuracy of this variable and proposes that a review be completed.
- Increasing the discount period would increase the contribution.
- Decreasing the discount rate would decrease the contribution.

REQUEST FOR FEEDBACK

Throughout the 2015 RDA preparation BC Hydro is consulting and engaging with customers. Through presentations on the key topics BC Hydro is meeting with specific stakeholders to gain further insight into our customers' views, issues and input into potential changes for the 2015 RDA.

Feedback forms have been prepared to ask detailed questions specific to each topic. These are provided to document any comments or questions you have during the presentations. Immediately after the presentations, BC Hydro will be sending out a digital versions of the Feedback Form (which will specify a return deadline) in order to give you more time to add further comments / recommendations (if you do not need additional time can collect your Feedback Form at the end of the presentation). We request that you send the completed forms by email directly to rena.messerschmidt@bchydro.com who will be summarizing all of the input for the next steps in the RDA process.

RDA NEXT STEPS - TIMELINE

You can find an overview of issues being considered in [the presentation from the first RDA workshop](#) available at: bchydro.com/about/planning_regulatory/2015-rate-design.html. Please also refer to the schedule of public workshops below. If you are interested in participating in any of these rate design engagement activities, please let us know by contacting bchydroregulatorygroup@bchydro.com.

Workshop	Date
Stakeholder workshop #1 <i>RDA introduction</i>	May 8, 2014
Stakeholder workshop #2 <i>Cost of Service (COS) overview</i>	June 19, 2014
Stakeholder workshop #3 <i>RIB rate design, T&C,</i>	June 25, 2014
Stakeholder workshop #4 <i>COS results and analysis</i>	October 7, 2014
Stakeholder workshop #5 <i>Distribution extension policies</i>	October 2014
Stakeholder workshop #6 <i>Transmission extension policies</i>	October 2014
Stakeholder workshop #7 <i>LGS/MGS</i>	November 2014
Stakeholder workshop #8 <i>TBD</i>	Fall 2014

Please send feedback for this presentation and guide to:

Email: rena.messerschmidt@bchydro.com

For all general 2015 RDA feedback or questions, please send to:

- **Mail:** BC Hydro, BC Hydro Regulatory Group – “Attention 2015 RDA”, 16th Floor, 333 Dunsmuir St., Vancouver, B.C. V6B-5R3
- **Fax:** 604-623-4407, “Attention 2015 RDA”
- **Email:** bchydroregulatorygroup@bchydro.com
- **Web:** bchydro.com/about/planning_regulatory/2015-rate-design.html