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November 29, 2016

Ms. Laurel Ross
Acting Commission Secretary
British Columbia Utilities Commission
Sixth Floor – 900 Howe Street
Vancouver, BC V6Z 2N3

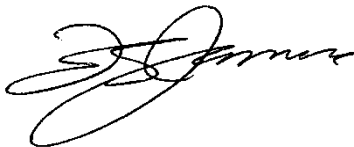
Dear Ms. Ross:

**RE: British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
F2017 Semi-Annual Deferral Accounts Report
for the Six Months ended September 30, 2016**

BC Hydro writes to provide its F2017 Semi-Annual Deferral Account Report for the six-month period ending September 30, 2016, in compliance with Directive No. 17 of the Commission's Decision on BC Hydro's F2005/F2006 Revenue Requirements Application (Commission Order No. G-96-04) and Commission Order No. G-112-14. This report contains information on the Heritage Deferral Account, the Non-Heritage Deferral Account, and the Trade Income Deferral Account.

For further information, please contact Fred James at 604-623-4317 or by email at bchydroregulatorygroup@bchydro.com.

Yours sincerely,



(for) Tom Loski
Chief Regulatory Officer

df/ma

Enclosure (1)

Deferral Account Report

F2017 Semi-Annual Report

For the Six Months Ended

September 30, 2016

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F2017 Semi-Annual Report
April 1, 2016 to September 30, 2016
Schedule A

British Columbia Hydro and Power Authority
Summary of Deferral Accounts
For the Six Months Ended September 30, 2016
(\$ million)

Line No.	Particulars (Note 1)	Opening Balance at April 1, 2016	Changes (Schedule B)	Amortization (Note 4)	Interest (Note 5)	Ending Balance at September 30, 2016
	(1)	(2)	(3)	(4)	(5)	(6)=(2)+(3)+(4)+(5)
1	Heritage Deferral Account (HDA)	(23.9)	(25.0) Note 2	2.0	(1.4)	(48.3)
2	Non-Heritage Deferral Account (NHDA)	916.8	107.9 Note 3	(77.2)	18.8	966.2
3	Trade Income Deferral Account (TIDA)	250.0	(35.1)	(21.0)	4.5	198.3
4	Total	1,142.9	47.8	(96.2)	21.8	1,116.3

Note 1: In the October 29, 2004 Commission Decision (Order No. G-96-04), the Commission approved the creation of four deferral accounts to capture the differences between forecasts used in setting rates and actual costs. By Order No. G-16-11, the Commission approved the termination of the BCTC Deferral Account.

Note 2: The transfers of (\$25.0) million which increase the credit balance in the HDA are primarily due to higher than approved surplus sales, partially offset by higher than approved Columbia River Treaty-related agreements costs. Surplus sales were higher than approved due to more exports being needed to reduce spill risk at Williston and more generation at Mica to maintain the downstream Arrow reservoir levels. Also contributing to the increase in surplus sales was higher than expected Mid-C prices. Columbia River Treaty related agreements costs were higher due to fewer releases from storage given low Arrow reservoir levels. Please see Schedule B for details on the HDA deferral transfer.

Note 3: The transfers into the NHDA of \$107.9 million are primarily due to lower than approved domestic revenues as a result of lower than approved residential revenues and light industrial and commercial revenues, as well as higher than approved IPP costs. Lower residential revenues are mainly due to warmer than normal weather in April and May. Light industrial and commercial revenues were lower than the approved due to lower usage in the commercial sectors. Higher IPP costs are primarily due to higher deliveries as a result of more inflows during the freshet. Please see Schedule B for details on the NHDA deferral transfer.

Note 4: Revenues collected via the Deferral Account Rate Rider (DARR) are used to amortize (reduce) the deferral account balances. The reduction is allocated to each deferral account based on the proportion of the ending Fiscal 2016 deferral account balances.

Note 5: Interest is calculated on the ending monthly balance (before interest) in each deferral account. The interest rate used is BC Hydro's actual weighted cost of debt for the current period as per Directive 1 (xxv) of the F12-F14 RRA Decision in Commission Order No. G-77-12A.

Due to minor rounding some totals may not add.

F2017 Semi-Annual Report
April 1, 2016 to September 30, 2016

British Columbia Hydro and Power Authority
Summary of Deferral Account Changes
For the Six Months Ended September 30, 2016
(\$ million)

Schedule B

Line No.	Particulars	Approved	Actual	Variance	Ref.
	(1)	(2)	(3)	(4) = (3) - (2)	(5)
1	Heritage Deferral Account				
2	Cost of Energy - Heritage	151.4	123.5	(27.9)	
3	Notional Water Rental (Displaced Hydro)	(2.4)	1.2	3.5	Note 1
4	Skagit Valley Treaty & Ancillary Revenue	(4.3)	(4.5)	(0.3)	
5	Costs in Operating / Amortization	6.4	6.3	(0.1)	Note 2
6	Deferred Operating Costs in HDA	0.0	(0.2)	(0.2)	Note 3
7	Other	14.1	14.1	0.0	Note 4
8	Total	<u>165.2</u>	<u>140.3</u>	<u>(25.0)</u>	Schedule A Line 1
9					
10	Non-Heritage Deferral Account				
11	Cost of Energy - Non-Heritage	622.4	659.3	36.9	
12	Commodity Risk	-	(0.1)	(0.1)	Note 5
13	Notional Water Rental (Displaced Hydro)	2.4	(1.2)	(3.5)	Note 1
14	Domestic Revenue Variance	-	76.0	76.0	Note 6
15	Deferred Operating Costs in NHDA	-	0.1	0.1	Note 7
16	Other	-	(1.5)	(1.5)	Note 8
17	Total	<u>624.8</u>	<u>732.6</u>	<u>107.9</u>	Schedule A Line 2
18					
19	Trade Income Deferral Account				
20	Trade Income			92.7	Note 9
21	Less: Trade Income from F17-F19 RRA			<u>(57.6)</u>	
22	Total			<u>(35.1)</u>	Schedule A Line 3

Note 1: Notional water rentals (Displaced Hydro) relates to water rentals associated with trade income. The notional water rental mechanism is described in the response to BCUC IR 1.2.36 dated January 23, 2004. The transactions relating to the notional water rental are eliminated on consolidation and there is no net impact on the combined HDA and NHDA as the transactions are mirrored within each account.

Note 2: Costs associated with compensation and mitigation efforts to fund fish and wildlife programs, Water Use Plan amortization, and Water Use Plan license costs were reclassified from cost of energy to other line items on the financial statements under IFRS. Since the nature of these costs has not changed, they continue to be treated as Heritage cost of energy for deferral accounting purposes, pursuant to Schedule A of Appendix A in Special Direction No. 7 regarding the Heritage Payment Obligation.

Note 3: Deferred Operating Costs in HDA includes a variance of (\$0.2) million related to the costs associated with maintaining water use plan licenses.

Note 4: BC Hydro is seeking approval in the F17-F19 RRA that annual negotiation costs related to First Nations be excluded from the calculation of the Heritage Payment Obligation for purposes of deferring variances to the Heritage Deferral Account, effective starting in F2017. BC Hydro believes it should bear the risks associated with the variances in annual negotiation costs. Prior to this request, Other amounts in the Heritage Payment Obligation include variances in the First Nations negotiation costs. No variances pertaining to the First Nations negotiation costs have been deferred as of September 30, 2016, consistent with the regulatory account orders requested by BC Hydro in the F17-F19 RRA (Section 7.7).

Note 5: Commodity Risk of (\$0.1) million consists of gains/losses on intercompany transactions that are offset by corresponding transactions in the TIDA. There is no net impact on the combined NHDA and TIDA balances due to these transactions.

Note 6: Domestic Revenue Variance (\$ million)	Approved	Actual	Variance
Residential	766.6	712.7	53.9
Light industrial and commercial	823.8	809.9	13.9
Large industrial	361.1	353.2	7.8
Other energy sales	48.0	47.6	0.3
Domestic Revenue Variance deferred in NHDA (Line 14)	<u>1,999.4</u>	<u>1,923.4</u>	<u>76.0</u>

Load Variance: as per Directive 5 of the F15-F16 RRA Decision per Commission Order No. G-48-14, BC Hydro is allowed to continue to defer in the NHDA the variances between the actual and forecast cost of energy arising from differences between forecast and actual domestic customer load. The net cost of energy variance due to domestic customer load simplifies as the gross cost of energy deferral (Line 2 + Line 11) plus the domestic revenue variance (Line 14).

Note 7: Deferred Operating Costs in the NHDA includes \$0.1 million incurred in F2017 as Burrard Costs as defined in Special Direction No. 7 of the F15-F16 RRA Decision and approved in Commission Order No. G-48-14.

Note 8: Other amounts deferred in the NHDA include a variance of (\$1.0) million on PTP wheeling charges (via Intersegment Revenues) and a variance of \$1.2 million on External OATT revenues (via Miscellaneous Revenues). Also deferred as Other in the NHDA is (\$1.7) million received from new customers connecting to the Northwest Transmission Line under Tariff Supplement No. 37 (Northwest Transmission Line Supplemental Charge). As this revenue was not originally planned for in the F17-F19 RRA, it resulted in a favorable variance of \$1.7 million. BC Hydro will be seeking approval from the BCUC during Fiscal 2017 on deferring this variance to the NHDA, with the ratepayers receiving the benefit of this favourable variance.

Note 9: Powerex net income (loss) reported for regulatory purposes is net of \$1.4 million corporate overhead allocation from BC Hydro to Powerex in accordance with Directive 9 of the F09/F10 RRA Decision.

Appendix 1

Deferral Account Rules

The following “rules” are used by BC Hydro for providing clarity in determining the deferral account transfers. These rules are derived from BC Hydro’s interpretation of the evidence and testimony provided during the F2005/F2006 Revenue Requirement Application (**RRA**) proceeding and in response to Commission Directive No. 19 of the October 29, 2004 Decision. These rules have been updated for the F07/F08 RRA Negotiated Settlement Agreement (**NSA**) and Directives included in the F09/F10 RRA Decision, the F11 RRA NSA, Commission’s Decision on the F12-F14 RRA as per Commission Order No. G-77-12A, and Commission’s issuance of Order No. G-48-14 related to Direction Nos. 6 and 7 issued from the Province to the Commission in regards to BC Hydro’s F15-F16 RRA.

The “rules” have also been updated for regulatory orders as requested by BC Hydro in the current F17-F19 RRA, the determinations for which are currently pending.

Where a footnote is shown, the referenced language is from the noted Commission decision or an ongoing regulatory proceeding as noted otherwise. Where a footnote is not shown (e.g., the bullet points), the language represents BC Hydro’s interpretation of the evidence and testimony noted above.

Heritage Deferral Account (HDA)

Commission Decision, October 29, 2004, Page 41:

Commission Findings

The Commission Panel approves the HDA as proposed by BC Hydro, and approves BC Hydro's forecast of the cost components of the HPO for F2005 and F2006.

Variances between the forecast and the actual cost for the following components of the Heritage Payment Obligation will flow through the HDA:

1. Cost of energy¹

This item is expanded in greater detail below to provide clarification on the methodology used to determine variances:

- Gains/losses on energy derivatives and financial instruments used to minimize energy costs are included as part of total energy costs;
- The total Heritage Energy (including Skagit/Seattle City Light commitments) is limited to 49,000 GWh in terms of the Heritage contract. If the Heritage Energy including 100 per cent of market electricity purchases exceeds the Heritage Energy limit, the excess purchases are transferred to Non-Heritage Energy in order to reduce the Heritage Energy volumes to the Heritage Contract limit;
- Variances resulting from changes to compensation and mitigation costs, water rental remissions, or Skagit energy transportation contracts are eligible for deferral. These are price variances as they do not vary with volume; and
- All load curtailment costs are to be included as part of the Heritage Payment Obligation and variance between Actual and Plan is to be included in the HDA.²

2. Variable costs related to thermal generation.¹

3. Significant unplanned major maintenance costs greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events.¹

4. Significant unplanned major capital expenditures having an incremental annual impact on the Income Statement greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events.¹

5. Amortization of unplanned deferred capital costs pursuant to Commission Order No. G-53-02,¹

6. All net revenues from surplus hydro electricity sales.³

¹ Per F05/F06 RRA Decision Directive 11, amended by the F09F/10 RRA Decision, Directive 31, as confirmed by Direction 7, section 7(a). BC Hydro is currently seeking determination from the Commission in the F17-F19 RRA (section 7.5.1 and section 7.7) on excluding the annual negotiation costs related to First Nations in the calculation of the Heritage Payment Obligation for the purposes of deferring variances to the HDA.

² Per F09/F10 RRA Decision, Directive 30.

7. Skagit Valley Treaty revenues and ancillary services revenues.³
8. An interest charge/credit⁴ is to be calculated on the ending monthly balance in each deferral account. The interest rate used is BC Hydro's actual weighted cost of debt for its current fiscal year as approved effective April 1, 2011.⁵

³ Per F05/F06 RRA Decision, Directive 11.

⁴ Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA Negotiated Settlement Agreement.

⁵ Per F12-F14 RRA Decision, Commission Order No. G-77-12A, Directive 1 (xxv).

Non-Heritage Deferral Account (NHDA)

Commission Decision, October 29, 2004, Page 41:

Commission Findings

The Commission Panel approves all elements of the NHDA, except the distribution emergency restoration costs elements, item 4, because it can be forecast with some confidence, unlike unplanned major capital expenditures and unplanned major maintenance expenditures, and because of risk/reward considerations. Given the denial of item 4 of the NHDA, item 3 of the NHDA is to be as set forth in Final Argument. The Commission Panel approves BC Hydro's forecast of the NHDA non-HPO cost of energy for F2005 and F2006.

Variances between the forecast and the actual cost for the following components of the Non-Heritage Cost of Energy will flow through the NHDA:

1. Cost of energy - all non-HPO energy costs.⁶ This item is expanded in greater detail below to provide clarification on the methodology used to determine variances:
 - Any variances relating to fixed price gas transportation contracts would flow through the deferral accounts as they do not vary with volume;
 - Future Trade: when Powerex purchases energy for future trade the cost of the purchase from the external party and the sale to BC Hydro of this energy is recorded in Powerex and is included as part of Trade Income. The BC Hydro side of the entry is shown as part of domestic energy costs (on consolidation, the Powerex revenue from BC Hydro and the BC Hydro energy costs from Powerex are eliminated). The difference between Actual and Plan on the BC Hydro side relating to energy for future trade flows through the Non-Heritage Deferral Account. The Powerex side of the transaction, which is part of Trade Income, flows through the Trade Income Deferral Account. Similar treatment is made when the energy is returned to Powerex;
 - Future Trade: when Powerex purchases energy for future trade, the Heritage Payment Obligation (HPO) is charged with a notional water rental charge for the use of this energy. The other side of this entry is shown as part of Non-Heritage energy. These entries are eliminated on consolidation. The difference between the Actual and Plan notional water rentals that is part of the HPO flows through the Heritage Deferral Account. The opposite variance relating to the Non-Heritage side of the notional water rental transaction flows through the Non-Heritage Deferral Account; and
 - Gains/losses on energy derivatives and financial instruments used to minimize energy costs are included as part of total energy costs.
2. Significant unplanned major maintenance costs greater than \$1 million related to single event equipment or infrastructure failure.⁶
3. Significant unplanned major capital expenditures having an incremental annual impact on the Income Statement greater than \$1 million related to single event equipment or infrastructure failure or caused by weather related events.⁶

⁶ Per F05/F06 RRA Decision, Directive 12, amended by F09F/10 RRA Decision, Directive 31, as confirmed by Direction 7, section 7 (c)(i).

4. Founding Partner Benefits and any CIS Credits under the ABS Contract.⁶
5. Impact of load variance.⁷
 - The Net Cost of Energy deferral amount is calculated by subtracting the Gross Load Variance and adding the Net Load Variance to the Gross Cost of Energy deferral amount. In practice, because Net Load Variance equals Gross Load Variance less Domestic Revenue Variance, the Net Cost of Energy Deferral simplifies to the Gross Cost of Energy Deferral minus the Domestic Revenue Variance.
6. Costs incurred by the authority in F2014 or a later fiscal year arising from the decommissioning of the Burrard Thermal Plant that are not required for transmission support services, including employee retention costs, penalties or damages that arise as a result of the decommissioning, and the net increase in amortization expense in F2015 and F2016.⁸
7. Variances related to the Northwest Transmission Line (NTL) Supplemental Charge revenues in conjunction with Tariff Supplement No. 37 amendments.⁹
8. An interest charge/credit¹⁰ is to be calculated on the ending monthly balance in each deferral account. The interest rate used is BC Hydro's actual weighted cost of debt for its current fiscal year as approved effective April 1, 2011.¹¹

⁷ F09/F10 RRA Decision, Directive 31 and F12-F14 RRA Decision, Commission Order No. G-77-12A, Directive 1 (ix).

⁸ Pursuant to Commission Order No. G-48-14 Directive 6 and Direction No. 7 to the Commission, section 7 (c)(ii).

⁹ Application to amend Tariff Supplement No. 37 (**TS 37**) regarding the Northwest Transmission Line Supplemental Charge will be filed with the Commission during F2017.

¹⁰ Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA Negotiated Settlement Agreement.

¹¹ Per F12-F14 RRA Decision, Commission Order No. G-77-12A, Directive 1 (xxv).

Trade Income Deferral Account (TIDA)

Commission Decision, October 29, 2004, Page 42, Section 4.6:

Commission Findings

The Commission Panel approves the TIDA as proposed by BC Hydro, and approves BC Hydro's forecast of Trade Income for F2005 and F2006.

- Under Direction No. 7 to the Commission, which continues the essential elements of the Heritage Contract framework formerly enshrined in Heritage Special Direction HC2, for F2015 and future years, any variance between the forecast Trade Income and the actual Trade Income will flow through the TIDA, except where Annual Trade Income is below zero;¹²
- Actual Trade Income is determined by excluding the impact on BC Hydro's consolidated net income due to foreign currency translation gains and losses on intercompany balances between BC Hydro and Powerex Corp. The "floor" of zero in the definition of Trade Income was removed for F2014 and reinstated for F2015 and future years;¹² and
- An interest charge/credit¹³ is to be calculated on the ending monthly balance in each deferral account. The interest rate used is BC Hydro's actual weighted cost of debt for its current fiscal year as approved effective April 1, 2011.¹⁴

¹² Refer to Heritage Special Direction No. HC2 and Direction No. 7 to the Commission – definition of "Trade Income".

¹³ Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA Negotiated Settlement Agreement.

¹⁴ Per F12-F14 RRA Decision, Commission Order No. G-77-12A, Directive 1 (xxv).