

Janet Fraser

Chief Regulatory Officer

Phone: 604-623-4046

Fax: 604-623-4407

bchydroregulatorygroup@bchydro.com

March 1, 2013

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

Dear Ms. Hamilton:

**RE: British Columbia Utilities Commission (BCUC)
British Columbia Hydro and Power Authority (BC Hydro)
Quarterly Deferral Account Report for the Nine Months ended
December 31, 2012**

BC Hydro writes to attach its Deferral Account Report for the nine-month period ending December 31, 2012, pursuant to Directive No. 17 of the BCUC's Decision on BC Hydro's F2005/F2006 Revenue Requirements Application (BCUC Order No. G-96-04). 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,



Janet Fraser
Chief Regulatory Officer

bh/rh

Enclosure



Quarterly Deferral Account Report

For the Nine Months Ended

December 31, 2012

(F2013 – Third Quarter)

Table of Contents

Summary of Deferral Accounts Schedule A

Summary of Deferral Account Changes Schedule A-1

Deferral Account Rules..... Schedule A-2

BC Hydro Quarterly Deferral Account Report - December 31, 2012
Schedule A

British Columbia Hydro and Power Authority
Summary of Deferral Accounts
For Nine Months Ended December 31, 2012
(\$ million)

Line No.	Particulars	Reported Opening Balance at March 31, 2012	Adjustment due to conversion to IFRS	Adjusted Opening Balance April 01, 2012	Changes (Schedule A-1)	Amortization	Interest	Ending Balance at December 31, 2012
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Heritage Deferral Account (HDA)	\$243.8	\$0.0	\$243.8	(\$73.0)	(\$40.1)	\$4.9	\$135.6
2	Non-Heritage Deferral Account (NHDA)	367.0	62.1	429.2	84.6	(60.4)	15.3	468.9
3	Trade Income Deferral Account (TIDA)	174.7	30.0	204.8	10.8	(27.2)	7.9	196.2
4	Total	\$785.6	\$92.1	\$877.8	\$22.4	(\$127.7)	\$28.1	\$800.7

5
6
7 In the October 29, 2004 BCUC Decision, the BCUC approved the creation of four deferral accounts to capture the differences between forecasts used in setting
8 rates and actuals. By Order No. G-16-11, the BCUC approved the termination of the BCTC Deferral Account.

9
10 On conversion to International Financial Reporting Standards (IFRS) effective at the beginning of F2013, BC Hydro was required to restate its balance sheet as
11 at April 1, 2012. Please refer to the report BC Hydro submitted to the BCUC on October 25, 2012 for further details of the conversion to IFRS and its impact to
12 existing deferral accounts.

13
14 As a result of the conversion to IFRS, an opening adjustment has been made to the NHDA relating to energy purchase agreements assessed as containing
15 embedded leases under IFRS. The net impact is a reduction to retained earnings of \$62.1 million which has been deferred to the NHDA.

16
17 An opening adjustment of \$30 million was also made to the TIDA account on date of transition to IFRS. Under IFRS, Powerex has several financial instruments
18 which require recognition as derivatives at fair value, but were not recognized as such under previous Canadian GAAP. In addition, Powerex recorded adjustments
19 to its foreign exchange gains and losses as result of the change in Powerex's functional currency to US dollars. The net impact on transition to IFRS resulted in
20 a reduction to Powerex retained earnings of \$30 million which has been deferred to the TIDA.

21
22 The transfers out of the HDA of \$73 million are largely due to released water from BC Hydro's portion of the Non-Treaty Storage Agreement as well as higher than
23 plan surplus sales. Please refer to Schedule A-1, Note 1, for a more detailed explanation on the Non-Treaty Storage Agreement.

24
25 The net increase to NHDA of \$84.6 million is primarily attributable to the impact of lower customer load and the deferral of the increase in the forecast cost of
26 energy between the original F12-F14 RRA and the Amended F12-F14 RRA. See Note 6 of Sch A-1 for further details.

27
28 Revenues collected via the Deferral Account Rate Rider (DARR) are used to amortize (reduce) the deferral account balances. The reduction is allocated to
29 each deferral account based on the proportion of the ending F2012 deferral account balances.

30
31 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
32 for the current period as per Directive (xxv) of BCUC Order G-77-12A pertaining to the Amended F12-F14 RRA.

33
34 Due to minor rounding some totals may not add.

BC Hydro Quarterly Deferral Account Report - December 31, 2012
Schedule A-1

British Columbia Hydro and Power Authority
Summary of Deferral Account Changes
For Nine Months Ended December 31, 2012
(\$ million)

Line No.	Particulars (1)	Actual (2)	Approved (3)	Variance (4)	Ref. (5)
1	Heritage Deferral Account				
2	Cost of Energy - Heritage	\$231.6	\$276.2	(\$44.6)	
3	Cost of Energy - Non-Treaty Storage Agreement	(41.4)	-	(41.4)	Note 1
4	Notional Water Rental (Displaced Hydro)	(1.7)	(9.7)	8.0	
5	Skagit Valley Treaty & Ancillary revenue	(8.2)	(8.4)	0.2	
6	Costs in Operating / Amortization	16.5	13.9	2.6	Note 2
7	Deferred Operating Costs in HDA	2.8	-	2.8	Note 3
8	Other	4.9	5.7	(0.8)	
9	Total	<u>\$204.6</u>	<u>\$277.7</u>	<u>(\$73.0)</u>	
10					
11					
12	Non-Heritage Deferral Account				
13	Cost of Energy - Total Non-Heritage	\$610.1	\$665.6	(\$55.5)	
14	Notional Water Rental (Displaced Hydro)	1.7	9.7	(8.0)	
15	F/X (Gains)/ Losses on Powerex Trade	(1.6)	-	(1.6)	
16	Domestic Revenue Variance	41.8	-	41.8	
17	ABSU Founding Partner Benefits	-	(0.3)	0.3	
18	Deferred Operating Costs in NHDA	0.9	-	0.9	Note 4
19	PTP and NITS variances	(12.9)	-	(12.9)	Note 5
20	F12-F14 RRA Adjustments	-	(119.6)	119.6	Note 6
21	Total	<u>\$640.0</u>	<u>\$555.4</u>	<u>\$84.6</u>	
22					
23	Trade Income Deferral Account				
24	Powerex Net Income			\$111.9	Note 7
25	Less: Trade Income from the Amended F12-F14 RRA Decision			<u>(122.7)</u>	
26	Total			<u>\$10.8</u>	

Note 1: An agreement with Bonneville Power Administration (BPA) to operate Non-Treaty space at Mica (effective September 2011), coupled with the renegotiation of the Non-Treaty Storage Agreement (effective April 2012), reduced energy costs by \$41.4 million. Under the agreement, when the Company releases water from its portion of non-treaty storage it is entitled to the value of additional energy flowing through the US Federal Columbia River, as determined by the market price of energy at that time. As at December 31, 2012 the Company has released water from its portion of non-treaty storage.

Note 2: Costs associated with compensation and mitigation efforts to fund fish and wildlife programs and load curtailment efforts have been reclassified from cost of energy to other line items on the financial statements under IFRS and in conjunction with BC Hydro's implementation of its new financial system. Since the nature of these costs has not changed, these costs continue to be treated as cost of energy for deferral accounting purposes, consistent with Heritage Special Direction No. HC2.

Note 3: Deferred Operating Costs in HDA includes significant unplanned major maintenance costs of \$2.8 million incurred YTD at the GMS Bennett Dam Spillway to repair the damage to the contraction and construction joints. Approximately \$7.7 million had been incurred to-date to repair the Spillway.

Note 4: Significant unplanned major maintenance costs totalling \$0.9 million pertains to the repair of the Alchelitz T4 substation emergency replacement and clean-up.

Note 5: In Order No. G-16-11, the BCUC approved the deferral of difference between forecast and actual transmission service net costs into the NHDA. The variance from the corresponding intercompany entry on Powerex's financial statements is deferred via the Trade Income Deferral Account.

Note 6: As per BCUC Order G-77-12A, BC Hydro was authorized to defer increases in the forecast of net cost of energy between the original Application and the Amended Application that would have otherwise been reflected in the F2013 rates. The total amount approved for F2013 was \$103.2 million. The YTD portion of this \$103.2m deferral transfer was \$119.6 million for the 9 months ended December 2012, which has been curved on a monthly basis.

Note 7: Powerex net income reported for regulatory purposes is net of \$2.1 million corporate overhead allocation from BC Hydro to Powerex in accordance with Directive 9 of the F09/F10 RRA Decision.

Schedule A-2

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 proceeding and in response to BCUC Directive No. 19 of the October 29, 2004 Decision, and updated for the F07/F08 RRA NSA, Directives included in the F09/F10 RRA Decision, the F11 RRA NSA, and BCUC’s Decision on the Amended F12-F14 RRA as per BCUC Order No. G-77-12A.

Heritage Deferral Account (HDA)

BCUC 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 energy.¹

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.
- 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 BCUC 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.

² Per F09/F10 RRA Decision, Directive 30.

³ Per F05/F06 RRA Decision, Directive 11.

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

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

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

Non-Heritage Deferral Account (NHDA)

BCUC 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.¹ 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; and
 - 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.
 - 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.¹
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.¹

¹ Per F05/F06 RRA Decision, Directive 12, amended by F09F/10 RRA Decision, Directive 31.

4. Founding Partner Benefits and any CIS Credits under the ABS Contract.¹
5. Impact of load variance.²
 - 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. An interest charge/credit³ 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, 2011.⁴

² F09/F10 RRA Decision, Directive 31 and F12-F14 RRA Decision, BCUC Order G-77-12A, Directive (ix).

³ Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA Negotiated Settlement Agreement.

⁴ Per F12-F14 RRA Decision, BCUC Order No. G-77-12A, Directive (xxv).

Trade Income Deferral Account (TIDA)

BCUC 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.

- Any variance between the forecast Trade Income and the actual Trade Income will flow through the TIDA, except where Annual Trade Income is below \$nil. Actual trade Income is after 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.¹
- An interest charge/credit² 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, 2011.³

¹ Refer to Heritage Special Direction No. HC 2.

² Per F05/F06 RRA Decision Directive 18, amended by the F07/F08 RRA Negotiated Settlement Agreement.

³ Per Amended F12-F14 RRA Decision, BCUC Order No. G-77-12A, Directive (xxv).