



FOR GENERATIONS

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February 28, 2014

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, 2013**

BC Hydro writes in compliance with BCUC Order No. G-96-04 (BCUC's Decision on BC Hydro's F2005/F2006 Revenue Requirements Application), Directive No. 17, to provide a Deferral Account Report for the nine month period ending December 31, 2013. 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,

A handwritten signature in black ink that reads "Janet Fraser".

Janet Fraser
Chief Regulatory Officer

Is/rh

Enclosure

Deferral Account Report

For the Nine Months Ended

December 31, 2013

(F2014 – Third Quarter)

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British Columbia Hydro and Power Authority
Summary of Deferral Accounts
For the Nine Months Ended December 31, 2013
(\$ million)

Line No.	Particulars	Opening Balance at April 1, 2013	Changes (Schedule A-1)	Amortization	Interest	Ending Balance at December 31, 2013
	(1)	(2)	(3)	(4)	(5)	(6)
1	Heritage Deferral Account (HDA)	\$69.9	\$51.4	(\$12.7)	\$1.9	\$110.5
2	Non-Heritage Deferral Account (NHDA)	467.5	41.6	(85.1)	14.1	438.1
3	Trade Income Deferral Account (TIDA)	190.2	191.4	(34.6)	8.5	355.4
4	Total	<u>\$727.6</u>	<u>\$284.5</u>	<u>(\$132.5)</u>	<u>\$24.5</u>	<u>\$904.0</u>

5
6 In the October 29, 2004 BCUC Decision (Order No. G-96-04), the BCUC approved the creation of four deferral accounts
7 to capture the differences between forecasts used in setting rates and actual costs. By Order No. G-16-11, the BCUC
8 approved the termination of the BCTC Deferral Account.

9
10 The transfers into the HDA of \$51.4 million are primarily due to higher than plan water rental costs and notional water
11 rental costs. Please see Schedule A-1 for details.

12
13 The net increase to NHDA of \$41.6 million is primarily due to the lower than plan revenues as a result of lower than plan
14 electricity usage and warmer than normal weather impacting domestic revenues. This is partly offset by lower than plan
15 Non-Heritage Cost of Energy mainly due to lower than plan IPP and long term purchase commitments. Please see Schedule
16 A-1 for details.

17
18 During April 2013, the British Columbia Utilities Commission issued the Generic Cost of Capital (GCOC) Decision which
19 resulted in a reduction in the Benchmark Utility Return on Equity from 9.5 per cent to 8.75 per cent, which would result in a
20 decrease to the BC Hydro allowed rate of return (ROE) for Fiscal 2014 from 11.84 per cent to 10.62 per cent. Per Directive 1
21 (xxvii) of BCUC Order No. G-77-12A pertaining to the Amended F12-F14 RRA, the impact of this decrease was to be
22 deferred to the NHDA. However, the Province has advised BC Hydro that it intends to issue a direction or regulation by the
23 end of Fiscal 2014 directing BC Hydro to maintain its net income forecast for Fiscal 2014 through Fiscal 2016 from the
24 February 2013 Budget. Had the impact of the GCOC Decision been reflected in the nine months ended December 31, 2013,
25 the Non-Heritage Deferral Account would have been approximately \$39 million lower than recorded.

26
27 On October 4, 2013, the Federal Energy Regulatory Commission (FERC) issued an Order approving the settlement between
28 Powerex and Pacific Gas and Electric, Southern California Edison, San Diego Gas and Electric, the California Attorney
29 General, and the California Public Utilities Commission (the California Parties) arising from events and transactions in the
30 California power market during the 2000 and 2001 period. The settlement will become final upon the Settlement Effective
31 Date specified in the settlement agreement, which is anticipated to occur in calendar 2014. As part of the settlement,
32 Powerex made a net cash payment into escrow of US\$273 million which translated to CDN\$287 million on the transaction
33 date and CDN\$291 million as at December 31, 2013, which was recorded as restricted cash. The cash payment will remain
34 in escrow until after occurrence of the Settlement Effective Date. The net cash payment was calculated as the difference
35 between the agreed upon settlement amount of US\$750 million and the receivables and interest owing from the California
36 parties to Powerex of US\$477 million. The net cash payment was accounted for as an adjusting subsequent event during the
37 first quarter and an expense of CDN\$214 million was recorded. The expense was calculated on the transaction date as the
38 net cash settlement amount of CDN\$287 million (US\$273 million) less amounts previously accrued related to legal claims of
39 CDN\$73 million. The Province has advised BC Hydro that it intends to issue a direction or regulation by the end of fiscal
40 2014 directing BC Hydro to maintain its net income forecast for fiscal 2014 through fiscal 2016 from the February 2013
41 Budget. As a result, the loss was deferred to the TIDA. Please see Schedule A-1 for details.

42
43 Revenues collected via the Deferral Account Rate Rider (DARR) are used to amortize (reduce) the deferral account
44 balances. The reduction is allocated to each deferral account based on the proportion of the ending Fiscal 2013 deferral
45 account balances.

46
47 Interest is calculated on the ending monthly balance (before interest) in each deferral account. The interest rate used is
48 BC Hydro's actual weighted cost of debt for the current period as per Directive 1 (xxv) of BCUC Order No. G-77-12A
49 pertaining to the Amended F12-F14 RRA.

50
51 Due to minor rounding some totals may not add.

F2014 - Third Quarter Report Schedule A-1

British Columbia Hydro and Power Authority
Summary of Deferral Account Changes
For the Nine Months Ended December 31, 2013
(\$ million)

Line No.	Particulars (1)	Actual (2)	Approved (3)	Variance (4)	Ref. (5)
1	Heritage Deferral Account				
2	Cost of Energy - Heritage	\$301.2	\$264.8	\$36.4	
3	Notional Water Rental (Displaced Hydro)	7.2	(7.5)	14.8	
4	Skagit Valley Treaty & Ancillary revenue	(9.3)	(8.9)	(0.4)	
5	Costs in Operating / Amortization	8.2	8.1	0.1	Note 1
6	Deferred Operating Costs in HDA	6.0	4.2	1.8	Note 2
7	Other	3.9	5.1	(1.2)	Note 3
8	Total	<u>\$317.3</u>	<u>\$265.8</u>	<u>\$51.4</u>	
9					
10					
11	Non-Heritage Deferral Account				
12	Cost of Energy - Total Non-Heritage	\$664.3	\$792.3	(\$128.0)	
13	Notional Water Rental (Displaced Hydro)	(7.2)	7.5	(14.7)	
14	F/X (Gains)/ Losses on Powerex Trade	8.3	-	8.3	
15	Domestic Revenue Variance	108.8	-	108.8	
16	PTP and NITS variances	3.4	-	3.4	Note 4
17	F12-F14 RRA Adjustments	-	(63.8)	63.8	Note 5
18	Total	<u>\$777.6</u>	<u>\$736.0</u>	<u>\$41.6</u>	
19					
20	Trade Income Deferral Account				
21	Powerex Net Income/(Loss)			(\$85.4)	Note 6
22	Less: Trade Income from the Amended F12-F14 ARRA Decision			<u>(106.0)</u>	
23	Total			<u>\$191.4</u>	

Note 1: 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 2: Deferred Operating Costs in HDA includes costs associated with maintaining water use plan licenses, with YTD variance totalling \$1.8 million.

Note 3: Other amounts deferred in the HDA include the amortization of unplanned deferred capital costs related to First Nations as per BCUC Order No. G-53-02 for a variance of (\$0.8) million, as well as (\$0.4) million variance pertaining to variable costs related to thermal generation.

Note 4: In Order No. G-16-11, the BCUC approved the deferral of the 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 5: As per BCUC Order No. 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 Fiscal 2014 rates. The total amount approved for Fiscal 2014 was \$49.8 million as per Directive 1 (xxxi) of BCUC Order No. G-77-12A (the approved amount will be reflected in the Q4 Annual Report).

Note 6: Powerex net income (loss) reported for regulatory purposes is net of \$2 million corporate overhead allocation from BC Hydro to Powerex in accordance with Directive 9 of the F09/F10 RRA Decision. See notes to Schedule A for additional discussion on the deferral of Powerex Net Income (Loss).

**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 and Directives included in the F09/F10 RRA Decision, the F11 RRA NSA, and BCUC’s Decision on the 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

7. Skagit Valley Treaty revenues and ancillary services revenues.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.

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 F12-F14 RRA Decision, BCUC Order No. G-77-12A, Directive 1 (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
4. Founding Partner Benefits and any CIS Credits under the ABS Contract.¹

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

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 No. G-77-12A, Directive 1 (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 1 (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.

- Under Special Direction No. HC2, 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.¹ (However, the trade income loss as of December 31, 2013 has been fully deferred to the Trade Income Deferral Account as the Province has advised BC Hydro that it intends to issue a direction or regulation to BC Hydro and the BCUC by the end of F2014 to defer the impact of the settlement.)
- 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. HC2.

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

³ Per F12-F14 RRA Decision, BCUC Order No. G-77-12A, Directive 1 (xxv).