



SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 36055

ERICA M. HAMILTON
COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: <http://www.bcuc.com>

VIA EMAIL

bhydroregulatorygroup@bhydro.com

April 8, 2011

**BC HYDRO F2012-F2014
REVENUE REQUIREMENTS**

EXHIBIT A2-9

Ms. Joanna Sofield
Chief Regulatory Officer
British Columbia Hydro and Power Authority
333 Dunsmuir Street
Vancouver, BC V6B 5R3

Dear Ms. Sofield:

Re: British Columbia Hydro and Power Authority
Project No. 3698622/Order G-40-11
F2012 to F2014 Revenue Requirements Application

Commission staff submits the following document for the record in this proceeding:

Auditor General of British Columbia – Letter dated March 3, 2011 to BC Hydro and Power Authority
- Audit of deferral and regulatory accounts.

Yours truly,

Erica M. Hamilton

/yl

Enclosure

cc: Registered Interveners
(BCH-2012-14RR-RI)



OFFICE OF THE
Auditor General
of British Columbia

8 Bastion Square
Victoria, British Columbia
Canada V8V 1X4
Telephone: 250 419-6100
Facsimile: 250 387-1230
Website: <http://bcauditor.com>

March 3, 2011

BC HYDRO – REVENUE REQUIREMENTS

F2012-F2014

EXHIBIT A2-9

Mr. David Cobb
President and CEO
BC Hydro
333 Dunsmuir Street
Vancouver, BC V6B 5R3

Dear Mr. Cobb:

The purpose of this letter is to advise you that we are undertaking an audit of the effectiveness of BC Hydro's recovery of its deferral/regulatory accounts, as outlined in our notice of planning letter dated November 8, 2010. This project will help to inform the public of the nature of the deferral/regulatory accounts, how and why they are used, and their resulting impact on rates.

We have attached Appendix A which presents our understanding of your responsibilities with regard to the area for audit. It is important that we receive your acknowledgement of your responsibility for the area under audit and that you acknowledge that the criteria identified in the appendix are suitable.

Hydro Responsibilities

To facilitate a smooth process, we ask that you:

- designate a key contact for the audit who can be the interface for dealing in a timely way with issues as they arise;
- ensure that staff are aware of our planned work, especially those that will be involved in the audit;
- ensure that staff are made available for interviews we may wish to conduct;
- provide requested documents (listed in Appendix B and any other documents requested during the audit) to us within 10 working days;
- reply to our requests to verify factual accuracy within 10 working days; and
- provide a brief response to our findings and recommendations within 10 working days. That response will be published in the final report to the Legislature.

Following these steps will help us minimize the intrusion into the work schedules of your staff.

Our Responsibilities

The audit will be conducted in accordance with Canadian generally accepted auditing standards for performance audit engagements. We seek to ensure that our engagements are carried out in a fair and unbiased manner, and that there is a strong working relationship between our Office and those organizations being audited. On an informal basis we will meet with you when and as required to keep you apprised of important issues. More formally, we will establish regular meetings with your staff to keep you informed as to our progress and to share our preliminary findings as appropriate; and at the end of the audit, we will seek your feedback as to how well we did and how we can improve our process.

We anticipate that the final report will be issued to the Legislative Assembly in late May 2011 or early June 2011 and released to the public on the same day it is delivered to the Legislature. A copy of the final report will be provided to you and the Deputy Minister of the Ministry of Energy seven days before the report is made available to the public.

Timeline

Key Deliverables	Planned Completion Date
Completed Evidence gathering	March 15, 2011
Completed facts and findings, sent to Hydro	March 31, 2011
Facts and findings reviewed with Hydro	April 8, 2011
Draft report sent to Hydro and ministry	April 15, 2011
Response from Hydro	April 30, 2011
Report published	May 31, 2011

Protecting Confidentiality

Pursuant to Section 9 of the Auditor General Act, the Auditor General and his staff must keep in confidence all information obtained in the performance of an audit, except as permitted under the Act.

Documents and information we provide to the Ministry during the course of this work remain the property of the Office of the Auditor General. This helps to ensure audit information is protected from disclosure.

Audit Team Contacts and Roles

Russ Jones, Assistant Auditor General, is the leader of this engagement who will be ultimately responsible for assuring the overall quality, value and timeliness of this audit.

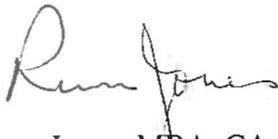
Brent Blackhall, Senior Manager, will have overall responsibility for managing the audit, and for planning, technical leadership and client reporting aspects.

Ben Hurd, Senior Auditor, is responsible for planning and conducting the audit, and for report writing and clearance.

Shaun Behan, Associate, is responsible for assisting and supporting the team as required.

We look forward to undertaking this work with your organization's cooperation. Should you have any questions on the matters outlined here, please contact me directly at 250-419-6103.

Yours truly,



Russ Jones, MBA, CA
Engagement Leader and Assistant Auditor General

I acknowledge responsibility for the subject matter and suitability of the audit criteria as described in Appendix A to this letter.

----- Dated: -----

David Cobb
President and CEO

Copy: Dan Doyle, Board Chair
Charles Reid, Executive Vice-President and CFO
Robin Junger, Deputy Minister, Ministry of Energy
Erica Hamilton, Commission Secretary, BC Utilities Commission

Area of Responsibility:

The project will examine the recovery period of costs being deferred as “regulatory assets” by BC Hydro (“Hydro”), and whether that period is effective in meeting Hydro’s stated objective of minimizing intergenerational inequity. We will also examine the period of refund for amounts recorded in “regulatory liability” accounts.

Audit Criteria:

The objective of this audit project is to determine whether the recovery (or refund) period of the regulatory assets (liabilities) is effective at minimizing intergenerational inequity. This objective is one that was stated by BC Hydro in its application to the BCUC. Essentially intergenerational equity requires that there be a proper matching of the costs to the period of benefits. Intergenerational equity is defined by Industry Canada as:

Inter-generational equity

The principle of equity between people alive today and future generations. The implication is that unsustainable production and consumption by today's society will degrade the ecological, social, and economic basis for tomorrow's society, whereas sustainability involves ensuring that future generations will have the means to achieve a quality of life equal to or better than today's.

The criteria will depend on the nature of the particular account we are examining. For most of the accounts we will be examining, the criteria will be 4-6 years. For “other” accounts (capital in nature, accounting provisions, etc.) the criteria will be the period that is effective at matching the cost to the period of benefit. We will assess that period against the recovery period approved by the BCUC and the period being used by BC Hydro.

The objective (minimizing intergenerational inequity) and criteria (4-6 yrs) was derived from the Fiscal 2009/10 Revenue Requirements Application submitted by BC Hydro in February 2008. The BCUC agreed with this objective and criteria. The criteria (recovery period) for the “other” deferral accounts is derived from the particular revenue requirements application in which the cost was first applied for or where a plan for recovery/repayment was first discussed.

Specific questions we will be exploring include:

1. Is the recovery period effective at minimizing intergenerational inequity?
2. Over what period are the Cost of Energy accounts currently being recovered?
3. Are the other deferral accounts being recovered over a reasonable time period, as determined on a case-by-case basis?
4. What would rates need to be to recover the Cost of Energy accounts over a 4-6 year period?
5. What would rates need to be to recover the other deferral/regulatory accounts over a reasonable time period, as determined on a case-by-case basis?
6. Is the accumulation of interest impacting the ability to recover the accounts over a reasonable time period?
7. How does Hydro’s net deferral balance, rates, and ROE compare to other regulated utilities in Canada?

Please provide us with a copy of the following:

- 2011 to 2015 forecast showing details of the anticipated changes in the regulatory and deferral accounts (i.e. additions, recovery, interest, etc., for each account). Please provide the information in a format similar to Schedules 2.1 and 2.2 of the November 19, 2010 Negotiated Settlement for the Fiscal 2011 Revenue Requirements Application.