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**VIA EMAIL**

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April 25, 2012

**BC HYDRO - F2012-F2014**

**REVENUE REQUIREMENTS**

**EXHIBIT A-33**

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

Dear Ms. Fraser:

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

Enclosed please find Commission Panel Information Request No. 1 with respect to Deferral Account and DARR Mechanism Alternatives.

Please file your responses electronically with the Commission by Tuesday, May 15, 2012 in accordance with the Commission's Document Filing Protocols.

Yours truly,

Alanna Gillis

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Enclosure  
cc: Registered Interveners

## **BRITISH COLUMBIA UTILITIES COMMISSION**

### **Commission Panel Information Request Deferral Mechanism**

**British Columbia Hydro and Power Authority (BC Hydro)  
F2012 to F2014 Revenue Requirements Application**

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**1.0 Reference: Deferral Account & DARR  
DARR Mechanism Alternatives (6.4.2)**

BC Hydro proposed a deferral mechanism (Deferral Mechanism Table) for estimating the Deferral Account Rate Rider (DARR) required to clear deferral balances to zero within 4-6 years. The Deferral Mechanism Table was approved under Commission Order G-16-09 [ref. Order G-16-09, Section 5.3, p. 172]. BC Hydro's Amended Application proposes a deviation from the Deferral Mechanism Table in order to achieve lower rates [ref. Exhibit B-1-3, Chapter 2, Section 2.3.3, pp. 9-10]. BC Hydro's proposed DARR of 2.5 percent for F2012-F2014 cannot clear the deferral balance within 4-6 years [ref. Exhibit B-16, BCSEA IR No. 1.16.2].

- 1.1 Please propose two alternative deferral account recovery mechanisms that will clear the deferral balance to zero over 4 years, 6 years and 10 years respectively. One of the alternative mechanisms should be a rate rider and the second alternative mechanism should be a non-rate rider amortization method. For each deferral mechanism, please include details of the formula, including all assumptions, and provide an example of its application based on F2013-F2014, demonstrating clearance of the account over each time period.

For the test period, BC Hydro has forecasted zero deferral account additions from variances between forecasted and actual Heritage, Non-Heritage, Trade Income, and BCTC costs. Historically, the upside and downside risks of deferral account additions have not been symmetrical. Between F2005 to F2011, the average level of deferral account additions was \$135.4 million per year. Going forward, BC Hydro expects deferral account additions to be greater than deferral account recoveries (ref. Exhibit B-16, BCSEA IR 1.78.5). Please ensure that the two alternatives are based on average additions of \$135.4 million per year.

- 1.1.1 Please discuss the relative advantages and disadvantages of each proposed mechanism as compared to the current Table DARR Mechanism.
- 1.1.2 For the two alternatives and the recovery over 4 years, 6 years and 10 years please show the effect using F2011 actual results to demonstrate the impact on customer classes.
- 1.2 For the rate rider mechanism, please ensure that you provide details of the assumptions around the rate that the mechanism is based upon.
- 1.3 For the rate rider mechanism, please discuss the pros and cons of setting the DARR annually, semi-annually, or quarterly.
- 1.4 Please discuss the advantages and disadvantages of a rate rider and non-rate rider (amortization reflected in rates) recovery mechanism.

- 1.5 Please discuss the advantages and disadvantages of recovering interest on the Deferral Account annually or capitalizing it to the deferral accounts (current practice). Please provide a comparative analysis of the economic impact of the recovery methodology on various customer classes, and on customers taking service in an inclining block rate structure.
- 1.6 How would expensing interest in the test period affect the recovery period of the two proposed alternatives?
- 1.7 Please reformulate the response to BCUC IR 2.33.1 which asked "Please provide an updated Table DARR Mechanism that allows the accounts to clear in four to six year assuming WACD at the current level and average additions of \$130 million." assuming interest is recovered in the test period, as opposed to being added to the accounts.
- 1.8 Pacific Northern Gas Ltd. (PNG) uses a Revenue Stabilization Adjustment Mechanism (RSAM) for clearing deferral account balances that result from variances between actual and forecast revenue. Please provide an assessment of the suitability of this method for clearing BC Hydro's total deferral balance. As part of the evaluation, please calculate the application of the RSAM methodology to F2013-F2014 based on a four-year amortization. Please also provide details of all assumptions used, and provide an electronic spreadsheet with calculations.
  - 1.8.1 The DARR is applied against the customer Usage-charge (\$), whereas RSAM is applied to customer energy consumption (GWh). Please discuss the advantage and disadvantages of each of these alternatives as applicable to BC Hydro.