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June 7, 2012

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

Dear Ms. Hamilton:

RE: Project No. 3698622
British Columbia Utilities Commission (BCUC)
British Columbia Hydro and Power Authority (BC Hydro)
Amended F2012-F2014 Revenue Requirements Application

BC Hydro writes in response to the BCUC's May 30, 2012 letter in this proceeding (Exhibit A-34) inviting interveners to make submissions on three questions as follows:

- (i) identify matters in the Amended Application not covered by Direction No 3;
- (ii) explain why matters are not covered by Direction No.3; and
- (iii) propose a process to resolve any such outstanding matters.

With the benefit of submissions on these topics, the BCUC will decide whether the procedural conference tentatively scheduled for June 12, 2012 pursuant to Order No. G-69-12 should proceed.

These are BC Hydro's reply submissions.

Outstanding Matters

The following matters have been identified as not being addressed by Direction No. 3:

- (i) Formulaic Method: the "... establishment of a formulaic method for clearing the net balance of deferral accounts" (BCSEA, Exhibits C10-20 and C10-21 and Vanport, Exhibit C27-7);
- (ii) Colwood: the review process, if any, regarding BC Hydro's Colwood Area Transmission Project (ESVI, Exhibit C16-11);

- (iii) Cost of Energy Deferrals in NHDA: whether “the BCUC should prescribe the practice of charging energy cost revisions to the Non-Heritage Deferral Account on an *ex ante* basis” (COPE, Exhibit C2-23);
- (iv) Amortization Plan/Table: “For the purposes of the next Application, BC Hydro should be directed to design a proposed amortization plan or table so that it does not contain a maximum/minimum limit in a range which has already been surpassed” (COPE);
- (v) DSM Accounting: “... directions to BC Hydro for the preparation of its next RRA with respect to its accounting practices and policies concerning DSM expenditures” (COPE);
- (vi) Amortization of TIDA: whether the Trade Income Deferral Account should be treated as one of the Deferral Accounts; (COPE);
- (vii) Amortization of Three Regulatory Accounts: “... the amount it [BC Hydro] should have amortized in the test period for the following deferral accounts: First Nations settlement; HPOP; and Rock Bay” (COPE);
- (viii) SMI: The appropriate amortization period of the SMI assets, in light of their useful life (COPE); and
- (ix) Length of Test Period: The appropriate length of the test period in the next revenue requirements proceeding (Wait, Exhibit C23-5).

Whether the Matters Are Covered By Direction No. 3

BC Hydro accepts that none of the matters described above are the subject of Direction No.3, and to that extent remain subject to debate. Nevertheless, no determination of any of the identified matters will have any effect on the rates in the test period, and this observation informs BC Hydro’s process submissions that follow.

Propose a Process to Resolve Each Issue

Formulaic Method

No intervener has proposed a process to address this issue. BC Hydro notes that the DARR has effectively been set for the test period F2012-F2014 by Direction No. 3. Accordingly, the appropriate place to address the issue is in BC Hydro’s next revenue requirements application in regard to rates commencing April 1, 2014. It is certain that BC Hydro would be addressing the issue in that application in any event, but has no objections to the BCUC establishing that obligation by order.

Colwood Area Transmission Project

No intervener has proposed a process to address this issue. BC Hydro notes that the Colwood Area Transmission Project is in the Identification Phase, and therefore BC Hydro has not made a decision to proceed with the project at this time. BC Hydro

proposes that if it intends to proceed to the Implementation Phase of the project, it will advise the BCUC and interveners of that decision, as well as its planned regulatory approach based on practices as set out in its guidelines. Depending on the timing of the decision to proceed, the next revenue requirements proceeding may be the appropriate forum for this issue.

Cost of Energy Deferrals in NHDA

No intervener has proposed a process to address this issue. BC Hydro proposes that if in its next revenue requirements application it proposes at the outset to defer any forecast cost of energy, that it also show what the rate relief would be in the absence of the deferral. In this way the BCUC can consider the issue in its proper context, and prior to issuing any interim rate relief.

DARR and Amortization Plan/Table

No intervener has proposed a process to address this issue, although COPE suggests that it might be appropriately dealt with in BC Hydro's next revenue requirements application. BC Hydro agrees, and refers to its comments above regarding the Formulaic Method issue. Specifically, BC Hydro has no objection to an order requiring it to explicitly consider in its next revenue requirements application a Deferral Account amortization plan that does not contain maximum or minimum limits on the DARR and that accounts for forecast changes in the balance of the Deferral Accounts.

DSM Accounting

COPE submits that this issue be addressed in BC Hydro's next revenue requirements application, and BC Hydro agrees.

Amortization of TIDA

No intervener has proposed a process to address this issue. BC Hydro notes that its rates have effectively been set for the test period F2012-F2014 by Direction No. 3. Accordingly, the appropriate place to address the issue is in BC Hydro's next revenue requirements application in regard to rates commencing April 1, 2014. BC Hydro has no objections to the BCUC establishing that obligation by order. As with the Cost of Energy Deferral in NHDA issue, BC Hydro proposes to show in that next application what the rate relief would be with and without the requested amortization treatment, and in this way allow the BCUC to consider the issue in its proper context prior to issuing any interim rate relief.

Amortization of Three Regulatory Accounts

No intervener has proposed a process to address this issue. BC Hydro also notes the inherent circularity in the specific request, because in the absence of a BCUC order, there is no amortization period that "should" have applied during the current test period.

Nevertheless, BC Hydro does not object to providing in its next revenue requirements application a range of reasonable amortization periods that might have applied to the three specified accounts in the test period, and the associated amortization amounts.

SMI

No intervener has proposed a process to address this issue, although COPE suggests that it might appropriately be dealt with in BC Hydro's next revenue requirements application. BC Hydro agrees, and commits to addressing the appropriate amortization period of its SMI assets in light of evidence regarding their anticipated useful life. It is certain that BC Hydro would be addressing the issue in that application in any event, but has no objections to the BCUC establishing that obligation by order.

Next Test Period

No intervener has proposed a process to address this issue. Since BC Hydro's rates have effectively been set for the test period F2012 – F2014, the next revenue requirements proceeding is the best proceeding to consider whether the length of BC Hydro's proposed test period is appropriate in the circumstances.

Procedural Conference

With the partial exception of COPE, none of the interveners have made any submissions on an appropriate process or procedures to address the outstanding matters, as requested by the BCUC in Exhibit A-34. Where COPE has proposed a process, it has proposed that BC Hydro be required to address the issue in its next revenue requirements application, a proposition that BC Hydro accepts. Intervenors having declined to make any procedural submissions with which BC Hydro disagrees, it follows that there are no issues before the BCUC that would justify the time and expense of the procedural conference. BC Hydro submits that it should not proceed.

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

Yours sincerely,



Janet Fraser
Chief Regulatory Officer

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