October 25, 2017

Mr. Patrick Wruck
Commission Secretary and Manager
Regulatory Support
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

RE: Project No. 1598922
British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
Site C Inquiry – BC Hydro Response to Peace Valley Landowners Association (PVLA) and Peace Valley Environment Association (PVEA) Submission (F35-16)

The Commission has requested that BC Hydro comment on the submission of the PVLA and PVEA dated October 11, 2017. This letter is our response.

PVLA’s submission discusses BC Hydro’s Debt Management Regulatory Account. BC Hydro’s use of the Debt Management Regulatory Account is open and transparent and complies with BCUC Order No. G-42-16. Our use of the account is to lock in low interest rates for the benefit of ratepayers and relates to our overall borrowings, not just those related to Site C.

The submission from PVLA contains a number of errors and ultimately a suggestion regarding the balance in the account that is contrary to the BCUC order. We would note the following:

- It is incorrect that the hedges BC Hydro has entered into are “to protect itself from rate hikes on $4.4 billion of required borrowings for the Site C dam” as claimed by PVLA. It is correct that the purpose of our hedging activities is to provide a benefit to ratepayers by locking in low interest rates, but the hedges are not only in respect of Site C and hence it is also incorrect to assert that the balance in the Debt Management Regulatory Account relates only to Site C.

- It is also incorrect that our hedging constitutes “speculative activity.” Rather, our hedging activity removes risk by providing interest rate certainty.

- It is also incorrect that “no formal reports have been provided to regulators and only sketchy references in BC Hydro’s financial reports reference this speculative
activity.” BC Hydro’s use of the Debt Management Regulatory Account is open and transparent, starting with the public process under which the BCUC approved the account. This included a public filing in December 2015, a workshop with interested parties, written answers to questions from the Commission and intervenors, written arguments, and ultimately the BCUC approval of the account on March 30, 2016 via Order No. G-42-16. The Commission Panel noted that the account “potentially reduces intergenerational inequity and rate volatility and improves the temporal matching of costs and benefits.”

- BC Hydro’s hedging activities and further information regarding the Debt Management Regulatory Account are included in our financial statements, which follow the accounting rules BC Hydro is required to follow, and which is audited by a third party accounting firm, KPMG.

- BC Hydro has complied with Commission directives by filing information regarding the Debt Management Regulatory Account with the BCUC for the year ended March 31, 2017 in September, 2017 as a component of the BC Hydro Annual Financial Report to the Commission. The level and detail of information regarding the Debt Management Regulatory account contained in the financial report was the result of discussions between BCUC Staff and BC Hydro.

- It is unreasonable to suggest that the balance in the Debt Management Regulatory Account be used to reduce the cost of terminating Site C in the event the Government decided to terminate the project.

- As noted above, the balance in the account does not relate only to Site C.

- Whether Site C proceeds or not, BC Hydro’s interest rate hedges are needed in respect of future borrowings related to other capital projects.

- The balance in the Debt Management Regulatory Account changes regularly as forward interest rates change and hence it would be unreasonable to assume the current balance will remain as-is.

- In any case, using the balance in the account as proposed by PVLA would be contrary to BCUC Order No. G-42-16 which requires BC Hydro to amortize any gains or losses from Future Debt Hedges over the remaining term of the associated long-term debt issuances.
For further information, please contact Fred James at 604-623-4317 or by email at bchydroregulatorygroup@bchydro.com.

Yours sincerely,

Fred James
Chief Regulatory Officer

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