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BRITISH COLUMBIA UTILITIES COMMISSION

LETTER NO. L-15-00

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VIA FACSIMILE April 6, 2000

Mr. Ray Aldeguer
Senior Vice President
Legal, Regulatory Affairs and General Counsel
British Columbia Hydro and Power Authority
17th Floor, 333 Dunsmuir Street
Vancouver, B.C. V6B 5R3

Dear Mr. Aldeguer:

Re: British Columbia Hydro and Power Authority
Commission Letter No. L-7-00
Report on Export Trade

The Commission has considered your submissions of February 29, 2000 and March 29, 2000 in response to Commission Letter No. L-7-00. The Commission has also considered the submissions of the Joint Industry Electricity Steering Committee and the Consumers' Association of Canada (B.C.) et al. on this issue.

The Commission agrees with B.C. Hydro that the pending legislation to extend the rate freeze until September 30, 2001 will postpone any revenue requirements review of the Utility during this fiscal year. Therefore, the requirement to obtain export trade information could be delayed if this information was needed solely for rate setting purposes. The Commission also accepts that Powerex is not a public utility if it acts at arms-length from B.C. Hydro, and as such the focus of further reporting by B.C. Hydro should be on the nature of the transactions entered into by B.C. Hydro with its non-regulated subsidiary. However, as recently affirmed by Order in Council No. 493 (dated March 30, 2000) amending Special Direction No. 8, the Commission is directed to calculate B.C. Hydro's return on equity using projections of consolidated net income that include an amount of electricity trade income consistent with the Commission's forecast of annual net export revenue under average water conditions.

The Commission also agrees with the submissions of the customer groups that the actions of B.C. Hydro with respect to electricity trade are very important to the welfare of ratepayers. In its most recent correspondence, B.C. Hydro indicates that a modified Rate Stabilization Account is to be established by the government through an Order in Council to change Special Directive No. 2 to B.C. Hydro. Order in Council No. 494, dated March 30, 2000, establishing Special Directive No. 4 to B.C. Hydro, sets out the operation of the Rate Stabilization Account for the dual purpose of helping B.C. Hydro achieve its targeted return on equity and keeping rates stable despite stream flow fluctuations. Therefore, actions taken by B.C. Hydro at this time, can have significant consequences to ratepayers after the expiry of the rate freeze. The ways in which B.C. Hydro manages its reservoirs in relation to the water flows into those reservoirs have the greatest single operational impact on the rates paid by domestic customers.

The Commission has an ongoing responsibility pursuant to Sections 23, 24, and 43 of the Utilities Commission Act to keep itself informed about B.C. Hydro's actions with respect to electricity trade. Electricity trade activities of B.C. Hydro have not been reviewed since 1994 and the nature of electricity markets has changed dramatically since that time. In its February 2000 Interim Report for the Nine Months ended December 31, 1999, B.C. Hydro stressed how the evolution of electricity markets had created a substantial opportunity for the Utility to purchase electricity from external sources when prices are low and store water behind its reservoirs to later utilize for export trade activity when market prices are high.

The Commission therefore directs B.C. Hydro to submit a report to the Commission by June 30, 2000 fully describing its export trade activities in the following three areas:

1. The Structure of Agreements between B.C. Hydro and Powerex

   B.C. Hydro is to clearly explain the nature of the transactions with respect to electricity trade between B.C. Hydro and its subsidiary Powerex. B.C. Hydro should also clearly explain how the content of each agreement entered into between them affects the structure of the electricity trade arrangements between the two parties. This section of the report should demonstrate the extent to which B.C. Hydro is safeguarding its domestic customers' interest in its arrangements with Powerex. For instance, the report should explain whether or not B.C. Hydro and Powerex are acting at arms-length. The Utility should also detail how it is safeguarding the interests of its domestic ratepayers through the consolidation of Powerex's revenues for revenue requirement purposes, or by transfers from Powerex to B.C. Hydro prior to export sales. The information provided should explain the nature of the agreements without disclosing any commercially sensitive information with respect to export trade.

2. Financial Information

   B.C. Hydro is to demonstrate, through the provision of historic and current financial information, how the export trade activities between B.C. Hydro and Powerex benefit domestic ratepayers fairly for the storage and generation assets of B.C. Hydro. The Commission recognizes B.C. Hydro's concern with respect to disclosing commercially sensitive information, but the Commission requires B.C. Hydro to provide adequate data to fully inform the Commission on the conduct of its public utility business with respect to electricity trade. B.C. Hydro should respond to those matters addressed in Commission Letter No. L-7-00 and provide financial details to the Commission without disclosing any commercially sensitive information.

3. The Rate Stabilization Account

   To better understand the impacts on ratepayers, B.C. Hydro is to detail the operation of the Rate Stabilization Account for Fiscal Year 1999/00, and its expected operation for Fiscal Years 2000/01 and 2001/02. The report should provide details on the state of B.C. Hydro's reservoirs and the expected water inflows based upon up-to-date snowpack information and forecasts of low, average and high precipitation for the remainder of calendar year 2000 and 2001 up to September 2001. Depending on the nature of the transactions between B.C. Hydro and Powerex, storage rights and water inventories held by Powerex at different times over the period should be identified. B.C. Hydro should then provide its load resource analysis to indicate domestic demand and export trade activities throughout the period to demonstrate how domestic customers will be protected during the rate freeze period and how B.C. Hydro will be well positioned to protect customers after the end of the rate freeze. B.C. Hydro should indicate if there are any conditions under which the Rate Stabilization Account balance will be used for any purpose other than domestic customer rate protection and protection of payments to the provincial government pursuant to Sections 5, 6, and 7 of Special Directive No. 4.

Electricity trade was a contentious issue at B.C. Hydro's last revenue requirements hearing, and the Commission's forecast of electricity trade revenues was made using less than adequate information. Since 1994, B.C. Hydro's net income from electricity trade has more than tripled, its revenues from electricity trade are approaching one-third of its total revenues, Powerex has become a sophisticated trader, and markets for electricity trade have become more accessible, diverse, and complex. The Commission has an ongoing obligation to ratepayers, to B.C. Hydro, and to the Lieutenant Governor in Council to gain a better understanding of B.C. Hydro's electricity trade activities and accounting practices.

Yours truly,

Original signed by:

Robert J. Pellatt

WJG/mmc

cc: Mr. Richard Gathercole
Executive Director
B.C. Public Interest Advocacy Centre
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