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**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER** G-139-06

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**IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473**

**and**

**An Application by British Columbia Transmission Corporation  
for Approval of its F2007 Transmission Revenue Requirement**

**BEFORE:** L.A. Zaozirny, Panel Chair and Commissioner November 9, 2006

**O R D E R**

**WHEREAS:**

- A. In a letter dated March 24, 2006, British Columbia Transmission Corporation ("BCTC") applied to the British Columbia Utilities Commission to have its existing rates approved as interim effective April 1, 2006 and in the same letter informed the Commission that the Transmission Revenue Requirement Application requesting for permanent rates will be filed in late April 2006; and
- B. By Order No. G-34-06 dated March 30, 2006, the Commission approved BCTC's current rates as interim effective April 1, 2006; and
- C. On May 26, 2006, BCTC filed for approval of its F2007 Revenue Requirement Application ("the Application") pursuant to Sections 58 and 89 of the Utilities Commission Act ("the Act"). The Application seeks approval of permanent rates effective April 1, 2006 and to further amend on an interim basis the current interim rates effective July 1, 2006 to reflect a F2007 Transmission Revenue Requirement decrease of 7.4 percent or \$42.2 million from the F2006 Transmission Revenue Requirement; and
- D. The Application proposes that on conclusion of a proceeding to review this Application, BCTC will implement permanent rates and make adjustments to prior billings; and
- E. BCTC's Application also seeks approval of: (i) depreciation rates pursuant to Section (56) of the Act; (ii) the clearing of deferral account balances under Section 6 of Special Direction No. 9; and (iii) Substation Distribution Asset Management and Maintenance costs and Distribution Operations Services costs for F2007; and
- F. By Order No. G-61-06 the Commission approved an interim refundable rate decrease of 7.4 percent effective July 1, 2006, issued a regulatory timetable and scheduled a Procedural Conference for June 23, 2006; and

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- G. At the Procedural Conference on June 23, 2006 and by letter dated June 26, 2006, BCTC requested an amended Order to approve interim refundable rates effective July 1, 2006 consistent with a 7.4 percent reduction in the Transmission Revenue Requirement as shown in Table 11-8 of the Application and by Order No. G-74-06, the Commission approved the interim refundable rates as requested; and
- H. By Order No. G-98-06, the Commission established a regulatory timetable for a Negotiated Settlement Process ("NSP") to review the Application commencing September 25, 2006. A proposed Settlement Agreement was agreed to by BCTC and Intervenor with assistance from Commission Staff; and
- I. The Participants at the Negotiated Settlement provided Letters of Support by October 23, 2006 for the proposed Settlement Agreement and Registered Intervenor who did not participate in the Settlement process provided no comments by the deadline of November 1, 2006; and
- J. The Commission has reviewed the proposed Settlement Agreement and the comments related thereto and, noting the concerns expressed by British Columbia Hydro and Power Authority and the support of all parties to the Proposed Settlement Agreement, considers that approval is warranted.

**NOW THEREFORE** the Commission orders as follows:

1. The Commission approves the Settlement Agreement attached as Appendix A to this Order.
2. BCTC is to refund any overpayment in rates with interest calculated at the average prime rate of the principal bank with which BCTC conducts its business. BCTC is to inform all customers of the final rates and refund by way of a customer notice.
3. The Commission will accept, subject to timely filing, amended Electric Tariff Rate Schedules in accordance with the terms of this Order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 9<sup>th</sup> day of November 2006.

**BY ORDER**

*Original signed by:*

L.A. Zaozirny  
Panel Chair and Commissioner

Attachment

**~~CONFIDENTIAL~~**

British Columbia Transmission Corporation

F2007 Transmission Revenue Requirement Application

Dated May 26, 2006

**NEGOTIATED SETTLEMENT**

**Dated as of October 6, 2006**

**WHEREAS:**

- A. In a letter dated March 24, 2006, British Columbia Transmission Corporation (“BCTC”) applied to the British Columbia Utilities Commission to have its existing rates approved as interim effective April 1, 2006 and in the same letter informed the Commission that the Transmission Revenue Requirement Application requesting permanent rates will be filed in late April 2006; and
- B. By Order No. G-34-06 dated March 30, 2006, the Commission approved BCTC’s current rates as interim effective April 1, 2006; and
- C. On May 26, 2006, BCTC filed for approval of its F2007 Revenue Requirement Application (“the Application”) pursuant to Sections 58 and 89 of the Utilities Commission Act (“the Act”). The Application seeks approval of permanent rates effective April 1, 2006 and to further amend on an interim basis the current interim rates effective July 1, 2006 to reflect a F2007 Transmission Revenue Requirement decrease of 7.4 percent or \$42.2 million from the F2006 Transmission Revenue Requirement; and
- D. The Application proposes that on conclusion of a proceeding to review this Application, BCTC will implement permanent rates and make adjustments to prior billing; and
- E. BCTC’s Application also seeks approval of: (i) depreciation rates pursuant to Section 56 of the Act; (ii) the clearing of deferral account balances under Section 6 of Special Direction No. 9; and (iii) Substation Distribution Asset Management and Maintenance costs and Distribution Operations Services costs for F2007; and
- F. By Order No. G-61-06, the Commission approved an interim refundable rate decrease of 7.4 percent effective July 1, 2006, issued a regulatory timetable and scheduled a Procedural Conference for June 23, 2006; and
- G. At the Procedural Conference, the BCTC confirmed their request for a written hearing process to review the Application with an option for a Negotiated Settlement Process (“NSP”); and

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- H. The Intervenor provided comments on the draft issues list and proposed regulatory agenda, agreed with BCTC's suggestion that a Second Procedural Conference be held, and, subject to the adequacy of BCTC information request responses, indicated that they will at that time determine whether to file Intervenor Evidence and/or continue to support either a written process or an NSP to review this Application; and
- I. At the Procedural Conference and by letter dated June 26, 2006, BCTC requested an amended Order to approve interim refundable rates effective July 1, 2006, as shown in Table 11-8 of the Application which are consistent with a 7.4 percent reduction in the Transmission Revenue Requirement and, by Order No. G-74-06, the Commission approved the interim refundable rates as requested; and
- J. By Order No. G-84-06, the Commission established a second Procedural Conference on August 9, 2006 along with a Regulatory Timetable for a Written Hearing Process with the alternative for a NSP which included options for the filing of Intervenor Evidence; and
- K. At the second Procedural Conference, Intervenor indicated they will not be filing Intervenor Evidence and supported a NSP but could not comment on the adequacy of the Information Request responses since there are still outstanding IR responses to be filed by BCTC; and
- L. Intervenor indicated that subject to BCTC's outstanding responses to Commission IR No. 1 and Intervenor IR No. 2, expected to be filed August 11, 2006, they may suggest further changes to the Revised Issues List attached to the Commission letter dated June 29, 2006; and
- M. By Order No. G-98-06, the Commission established a Negotiated Settlement Process starting September 25, 2006. The following parties took part: BC Old Age Pensioners' Organization et al., Joint Industry Electricity Steering Committee, BC Hydro and Power Authority ("BC Hydro") and BCTC (collectively, the "Parties"). The Parties were assisted in reaching a Settlement Agreement by Commission staff; and
- N. Some participants expressed concern about the growth in OMA expenditures including the relationship to productivity, efficiency and staff vacancies among other matters; and
- O. BCTC believes that nothing in this settlement will restrict BCTC's ability to provide safe, reliable service, or to promote the safety of the public and those working on the transmission system.

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**WHEREFORE THE PARTIES AGREE AS FOLLOWS:**

1. The Parties agree to hold confidential the discussions held on September 25, 2006 unless disclosure is agreed to by all Parties and released publicly by Commission staff.
2. This Settlement Agreement represents a compromise reached on a “without prejudice” basis. Neither this Settlement Agreement, nor the positions taken and statements made by the Parties during the Negotiated Settlement Process will restrict in any way the positions that may be taken by any of the Parties in future proceedings concerning this or other applications.
3. This Settlement Agreement is a comprehensive settlement of all issues related to the F2007 Transmission Revenue Requirement except for the components of the BCH Owner’s Revenue Requirement described on page 13 line 20 to page 14 line 5 of the Application that are to be considered in the BC Hydro F2007/F2008 RRA Proceeding, and the matters described in sections 7 and 13 below.
4. None of the provisions of this Settlement Agreement are severable. If the Commission does not accept and approve the Settlement Agreement in its entirety, there is no agreement.
5. The Application is accepted subject to the provisions that follow.
6. As part of its next revenue requirement application (“RRA”), BCTC will examine and address the desirability of harmonizing its future RRA filings with BC Hydro’s RRA filings and will include a recommendation based on this analysis.
7. The interest rates that will be applied to interim rate refunds and deferral accounts will use the same methodology(ies) as is ultimately determined by the Commission with respect to the BC Hydro F2007 – F2008 RRA proceeding.

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8. BCTC will review its compliance with its Open Access Transmission Tariff and report the results in its next RRA.
9. BCTC will file with the Commission as soon as practicable an analysis by transmission service (i.e., Common for SDA, Owner's RR and GRTA) showing how allocations based on the actual F2006 depreciation expense by transmission service correspond to the allocations on page 88 of the Application.
10. BCTC will prepare a report that explores the relationships among infrastructure spending, reliability metrics and targets, and customer impacts. Among other things, the report may:
  - (a) link changes in reliability indices to impacts on end-use customers to establish the costs and benefits of establishing specific reliability targets;
  - (b) examine the normal year-to-year variations in the reliability indices to establish the period(s) over which targets should be established and the periods over which "real" trends can be detected (statistical process control theory may be of some use here);
  - (c) determine whether system-wide metrics or more localized (e.g., substation by substation) metrics are appropriate as investment triggers and/or inputs to project prioritization tools;
  - (d) propose a clear priority-setting mechanism for expenditures on existing infrastructure and provide examples of how those mechanisms are to be employed;
  - (e) seek feedback from customers on the impact of outages and the cost/reliability trade off;

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- (f) ensure that the metrics used in assessing the performance of BCTC, its contractors, and its employees measure, to the greatest extent possible, controllable factors; and
- (g) propose one or more mechanisms by which BCTC can, over time, establish a statistical relationship between the amount and timing of infrastructure expenditures and changes in the various measures of system reliability.

If this report is not complete at the time of BCTC's next RRA filing, BCTC will file an interim report at that time, with a complete report to be filed with the subsequent RRA.

- 11. BCTC will discuss with BC Hydro the advisability and possibility of reducing the frequency of the Asset Condition Assessment Report and will advise the Commission of the results of those discussions.
- 12. With its next RRA, BCTC will provide a report that discusses the merits of the fixed-cost approach to GRTAs relative to an approach that uses actual or forecast costs on a year-by-year basis. The report should estimate the magnitude of the potential variances between actual costs and the \$43.3 million fixed amount, and the consequent rate impacts, based on some reasonable assumptions concerning the GRTA cost components and additions to (or retirements of) GRTA facilities over the term of the Heritage Contract.
- 13. If the Commission issues an accounting order in the BC Hydro F2007 – F2008 RRA proceeding that addresses the write-off of assets in the context of applying depreciation study results, BCTC will apply to the Commission for a similar order, recognizing that there are no BCTC assets to which that order would currently be applicable.

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14. BCTC confirms it has not applied a negative salvage value in the method used to develop the depreciation rates in the depreciation study as indicated in the BCTC responses to BCUC Information Requests 1.64.2 and 1.64.3 and no assets have had a negative salvage value applied.
15. BCTC is developing a “balanced scorecard framework.” In developing that framework, BCTC will consider the following and provide its conclusions to the Commission:
  - (a) the extent to which the actions of individuals, the Corporation, or its suppliers can affect the performance measures;
  - (b) the natural variability of the performance measures and the length of time necessary to extract real trends from the accompanying “noise;”
  - (c) the “rules” that determine how performance measures within or beyond certain ranges will translate to incentives or trigger additional investment in human resources, information technology, transmission infrastructure, etc;
  - (d) the processes (and the costs thereof) necessary to gather, track, and utilize the data, and a plan for establishing those processes; and
  - (e) the extent to which changes in the performance measure impact customers.
16. In its next RRA, BCTC will provide an update of any recommendations made by the Risk Management Branch (“RMB”) regarding alternative approaches for BCTC to participate in a pooling arrangement through RMB that would protect BCTC against responsibility for third party losses and of any resultant potential financial impacts.
17. The approved revenue requirements will reflect a global reduction, as shown on line 10 of Table 1 to this Settlement Agreement, in Total OMA Expense of \$3.27 million (rounded to \$3.3 million on line 9 of Table 1 to this Settlement Agreement) (before



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Capitalized Overhead) from the amounts stated in the Application. This reduction will include a \$300,000 reduction in Regulatory Expenses. The plan amount against which variances in actual expenses will be recorded in the F2007 Regulatory Expense Deferral Account will be \$3 million.

18. The approved revenue requirements will reflect a reduction in Capitalized Overhead of \$0.6 million, with a corresponding increase in OMA, resulting in a decrease in Net OMA Expense of \$2.67 million (rounded to \$2.7 million on line 14 of Table 1 to this Settlement Agreement).
19. BCTC will study a proposal, for ratemaking purposes, to delay the in-service date of BCTC capital assets related to CPCN projects until the beginning of the fiscal year following the actual in-service date of the asset. BCTC will report to the Commission before December 31, 2006.
20. In its next RRA, BCTC will continue to use the most recent information available to it in preparing its revenue forecast, and will describe any improvements it has made to include up-to-date forecasts in its revenue requirement filings.
21. BCTC will apply to the Commission for an accounting order to make the following entries:

BC Hydro:

Dr. Accounts Payable \$1.4 million

Cr. Fixed Assets            \$1.4 million

BCTC:

Dr. Retained Earnings \$1.4 million

Cr. Accounts Receivable    \$1.4 million

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The effect of these entries will be to reduce BCTC's retained earnings and reduce BC Hydro's Fixed Assets. The purpose of these entries is to prevent an unintentional double recovery of costs of Gas Insulated Switchgear and Air Blast Circuit Breakers which were forecast as OMA in F2006 but subsequently capitalized.

22. Table 1 summarizes the changes to OMA and Capitalized Overhead from the Settlement. Table 2 provides a summary of the F2007 Transmission Revenue Requirement comparing the Application to the Settlement.

Table 1

<b>\$ millions</b>	<b>F2007 Plan</b>	<b>F2007 NSP</b>
(a)	(b)	(c)
1 Asset Management & Maintenance	99.7	99.7
2 Operations:		
3   System Operations	32.5	32.5
4   System Planning & Performance Assessment	9.7	9.7
5   Market Operations	3.3	3.3
6 Operations Total	45.5	45.5
7 General & Administration	29.5	29.5
8 Total OMA	174.7	174.7
9 NSP OMA Adjustment (Provision 17)		(3.3)
10 <b>Total OMA Expense</b>	<b>174.7</b>	<b>171.4</b>
11 Capitalized Overhead	(9.8)	(9.8)
12 NSP Capitalized Overhead Adjustment (Provision 18)		0.6
13 Capitalized Overhead	(9.8)	(9.2)
14 <b>Net OMA Expense</b>	<b>164.9</b>	<b>162.2</b>

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Table 2

<b>\$ millions</b>	<b>F2007 Plan</b>	<b>F2007 NSP</b>	<b>Change</b>
(a)	(b)	(c)	(d)
1 <b>BCTC</b>			
2 OMA (Note	164.9	162.2	(2.7)
3 Allowed Return	2.9	2.9	
4 Finance Charges	0.2	0.2	
5 Cost of Market	6.8	6.8	
6 Depreciation & Amortization	14.6	14.6	
7 Grants & Taxes	0.3	0.3	
8 <b>BCTC Total Cost</b>	189.7	187.0	(2.7)
9 Less Non-OATT Revenue and Recoveries	(32.1)	(32.1)	
10 <b>BCTC Transmission Revenue Requirement</b>	157.6	154.9	(2.7)
11 <b>BC Hydro</b>			
12 OM	5.8	5.8	
13 Allowed Net Income	102.6	102.6	
14 Finance Charges	123.2	123.2	
15 Depreciation & Amortization	99.3	99.3	
16 DS	3.6	3.6	
17 Grants & Taxes	87.7	87.7	
18 Corporate Business Sustaining Costs	11.2	11.2	
19 <b>BC Hydro Total</b>	433.4	433.4	-
20 Less Non-OATT Revenue and Recoveries	(66.8)	(66.8)	
21 <b>BC Hydro Transmission Revenue Requirement</b>	366.6	366.6	-
22 <b>Total Cost</b>	623.1	620.4	(2.7)
23 Less Non-OATT Revenue and Recoveries	(98.9)	(98.9)	-
24 <b>Total Transmission Revenue Requirement</b>	524.2	521.5	(2.7)

Note 1 - Reflects a reduction of \$3.27 million (rounded in this table to \$3.3 million) in OMA (Provision 17), partially offset by a \$0.6 million reduction in Capitalized Overhead (Provision 18).

23. BCTC agrees to clear the F2006 year-end Emergency Maintenance Deferral Account (“EMDA”) balance and dispose of the balance through direct refunds to the customers.



Joanna Sofield  
Chief Regulatory Officer  
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October 23, 2006

Mr. Robert J. Pellatt  
Commission Secretary  
British Columbia Utilities Commission  
Sixth Floor – 900 Howe Street  
Vancouver, BC V6Z 2N3

Dear Mr. Pellatt:

**RE: British Columbia Utilities Commission (BCUC) Project No. 3698424  
British Columbia Transmission Corporation (BCTC)  
F2007 Transmission Revenue Requirements Application (Application)  
British Columbia Hydro and Power Authority (BC Hydro)  
Submission on Settlement Agreement**

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BC Hydro writes in regard to the above-noted matter, and in response to the October 17, 2006 letter from BCUC staff. That letter attached the settlement agreement that arose from the negotiated settlement process regarding BCTC's Application. BC Hydro was a participant in that process and writes to support acceptance of the settlement agreement by the BCUC.

However, as part of the settlement the operations, maintenance and administration (OMA) cost component of BCTC's F2007 revenue requirement is to be reduced by \$3.3 million, thereby reducing BCTC's expected revenues in F2007 by that amount. Despite supporting the acceptance of the agreement, BC Hydro notes its concerns regarding the potential adverse impact on the safety and reliability of the transmission system, the safety of the public, and the safety of BC Hydro employees and contractors who perform maintenance work under the direction of BCTC, that may arise as a result of reduced BCTC revenues, and potential consequential reductions in OMA expenditures.

While accepting that this is a settlement for a single year, BC Hydro will be concerned if BCTC were to agree in its future revenue requirement proceedings to further reduce revenues in ways that could adversely impact OMA expenditures related to safety and reliability.

Yours sincerely,

A handwritten signature in black ink, appearing to read "J. Sofield".

Joanna Sofield  
Chief Regulatory Officer

c. NSP Participants (Project No. 3698424)



**Bull, Housser  
& Tupper LLP**

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Reply Attention of:	R. Brian Wallace
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E-mail:	RBW@bht.com
Our File:	06-2343
Date:	October 24, 2006

British Columbia Utilities Commission  
6<sup>th</sup> Floor – 900 Howe Street  
Vancouver, BC V6Z 2V3

**Attention:** William J. Grant  
Transition Advisor

Dear Sirs/Mesdames:

**Re: British Columbia Transmission Corporation ("BCTC")  
Negotiated Settlement  
F2007 Revenue Requirement Application**

We refer to your letter of October 19, 2006 in this matter.

We confirm the Joint Industry Electricity Steering Committee ("JIESC") accepts the Negotiated Settlement Agreement in the form attached to your letter.

Yours truly,

Bull, Housser & Tupper LLP

R. Brian Wallace

RBW/sg/1468357  
Copy to Attn: D. Potts, JIESC