



LETTER NO. L-92-07

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VIA E-MAIL

November 15, 2007

To: BCTC F2007 Transmission Revenue Requirements Registered Intervenor
(*BCTC-F2007TRR-RI*)

Re: British Columbia Transmission Corporation ("BCTC")
F2007 Transmission Revenue Requirements Application
Negotiated Settlement - Response to Undertakings

The F2007 Transmission Revenue Requirements Application - Negotiated Settlement that was approved by Commission Order No. G-139-06 contained a number of undertakings. On August 3, 2007 BCTC filed a response to the following undertakings ("August Response to Undertakings"), with a copy provided to the Registered Intervenor from the F2007 Transmission Revenue Requirements proceeding:

- Item 6 Harmonizing BCTC's Transmission Revenue Requirement Application with BC Hydro's Revenue Requirement Application
- Item 11 Frequency of the Asset Condition Assessment Report
- Item 15 Balanced Scorecard Framework
- Item 16 Risk Management Branch regarding possible pooling arrangements
- Item 19 Ratemaking in-service date of BCTC Certificate of Public Convenience and Necessity (CPCN) Projects

Item 11 described the requirement under the Asset Management and Maintenance Agreement for BCTC to commission an audit every three years on the asset health and maintenance of the Transmission System where the scope of the audit can be modified. BCTC met with BC Hydro and Power Authority ("BC Hydro") and reached an audit plan arrangement which includes a process audit in F2010 of the Asset Health Index. On Item 11, page 3, BCTC notes that the Commission's June 15, 2007 Decision on BCTC's Transmission System Capital Plan F2008 to F2017 on page 36 refers to Commission Order No. G-91-05, page 26, Directive 11 that states "*The Commission Panel finds that the three-year interval between asset condition audits is appropriate.*"

It appeared to BCTC that Directive 11 from Commission Order No. G-91-05 may be in conflict with Item 11 from Order No. G-139-06 and BCTC is seeking clarification regarding the approach to transmission asset condition assessments. BCTC indicated that it and BC Hydro would prefer not to undertake a complete audit every three years. BCTC recommends acceptance of the agreement between BCTC and BC Hydro regarding the conduct of asset health assessments.

On September 18, 2007 BCTC filed a response to undertaking Item 12 Merits of a fixed-cost approach to Generation Related Transmission Assets ("GRTAs") relative to actual or forecast costs (September Response to Undertakings) with a copy provided to the Registered Intervenors from the F2007 Transmission Revenue Requirements proceeding.

By Letter No. L-75-07, the Commission requested that the Registered Intervenors provide their comments on BCTC's August and September Response to Undertakings by Friday, October 12, 2007, with a copy to BCTC. Registered Intervenors were also requested to provide their views on Item 11 and whether a complete audit on transmission asset condition assessments should be done every three years or should the agreement between BCTC and BC Hydro establish the conduct of asset health assessments. BCTC was requested to provide its reply comments by Friday, October 19, 2007.

Comments were received from BC Hydro on October 12, 2007. No other Registered Intervenors provided comments. On October 19, 2007, BCTC advised that it had no reply comments.

The following summarizes BCTC's August and September Response to Undertakings, BC Hydro's comments and the Commission determination:

Item 6 Harmonizing BCTC's Transmission Revenue Requirement Application with BC Hydro's Revenue Requirement Application

BCTC and BC Hydro confirmed that they had several meetings with regard to the timing of the two organizations' revenue requirements applications. BCTC and BC Hydro coordinate their efforts because both companies are dependent on each other during the budgeting process. Both BCTC and BC Hydro have the view that the simultaneous filing of common test period applications would not result in greater consistency or transparency between BCTC and BC Hydro applications. BCTC has been filing annual revenue requirements applications and while it is still evolving BCTC is not prepared to move multi-year revenue requirements. BC Hydro is considering a three-year test period for its next revenue requirements application.

The Commission accepts the submissions of BCTC and BC Hydro that the simultaneous filing of common test period applications would not result in greater consistency or transparency between BCTC and BC Hydro applications at this time.

Item 11 Frequency of the Asset Condition Assessment Report

BC Hydro confirmed that it reached agreement with BCTC on the proposed audit plan. BC Hydro also confirmed that in BC Hydro's view it would not be cost-effective to perform a full Asset Condition Assessment in 2007. BC Hydro supports BCTC's plans to perform a process audit on the Asset Health Index determination in F2010. Accordingly, BC Hydro submits that a complete audit on transmission asset condition assessments should not be required every three years.

The Commission accepts the agreement between BCTC and BC Hydro regarding the conduct of asset health assessments.

Item 12 Merits of a Fixed-Cost Approach to GRTAs

Item 12 in BCTC's F2007 Revenue Requirements Negotiated Settlement required BCTC to provide a report that discusses the merits of the fixed cost approach to GRTAs (Generation Related Transmission Assets) relative to an approach that uses actual or forecast costs on a year-by-year basis. BCTC filed the report in its September Response to Undertakings and compared the fixed cost of \$43.3 million to an updated list of transmission and

generating station facilities that would result in a revenue requirement of \$42.8 million. BCTC believes that annual reviews of the allocation of assets to GRTA would not result in significant changes from year to year and requires considerable effort to identify GRTA and non-GRTA assets in any given year. BCTC recommends the continuation of the fixed-cost approach to GRTAs using the fixed fee of \$43.3 million and recommends that annual re-evaluations of GRTAs not be required. BC Hydro supports BCTC's position.

The Commission accepts that a fixed-cost approach to GRTAs using the fixed fee of \$43.3 million is appropriate and that annual re-evaluations of GRTAs are not required.

Item 15 Balanced Scorecard Framework

Item 15 in BCTC's F2007 Revenue Requirements Negotiated Settlement required BCTC to consider a number of items for inclusion in its balanced scorecard framework and provide its conclusions to the Commission. In the August Response to Undertakings, BCTC provide a status report on the progress to date and its planned next steps. The balanced scorecard measures performance in terms of four pillars: 1) financial performance of an organization, 2) customers and stakeholders of an organization, 3) critical internal business processes in which an organization must excel and 4) learning and growth for employees and infrastructure.

No comment was received from BC Hydro on this item.

The Commission has reviewed BCTC's report and supports the progress to date.

Item 16 Risk Management Branch regarding possible pooling arrangements

Item 16 in BCTC's F2007 Revenue Requirements Negotiated Settlement required BCTC to 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 any resultant financial losses. BCTC concluded that the RMB could potentially provide assistance in three areas of 1) uninsured liability to BC Hydro for damage to the Transmission System, 2) excess liability insurance and officer's liability insurance. BCTC met with RMB on February 23, 2007 to discuss these risk management issues. RMB subsequently indicated that it had discussions with the Treasury Board and BCTC is awaiting a formal response from the RMB on how it can assist BCTC.

The Commission accepts this status report from BCTC and requires a final report on this item following the response from RMB.

Item 19 Ratemaking in-service date of BCTC Certificate of Public Convenience and Necessity (CPCN) Projects

Item 19 in BCTC's F2007 Revenue Requirements Negotiated Settlement required BCTC to 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 is to report to the Commission. BCTC referred to this proposal as a Treatment under Examination.

BCTC's current treatment of CPCN capital projects is to forecast and place these projects into service for ratemaking purposes in the month when a project is forecast to be completed and the asset is available for its intended purpose. Rates that are set based on these forecast additions may result in the over or under recovery of the revenue requirement that would result if the actual in-service date of a project were used ("Current Treatment").

BCTC prepared a generic project example to compare the lifecycle revenue requirement impact of its Current Treatment with the Treatment under Examination. BCTC found the same impact on transmission revenue requirement over the life of the assets under the Current Treatment and the Treatment under Examination therefore a change to the Treatment under Examination would be neutral to BCTC and its customers. BCTC also believes that moving to the Treatment under Examination would be consistent with Special Direction No. 9. BCTC does not consider that the Treatment under Examination is acceptable under Generally Accepted Accounting Principles (“GAAP”) and therefore BCTC would require an accounting order from the Commission that allows a variance from GAAP.

BCTC recommends that the Treatment under Examination should be adopted by BCTC for current and future capital CPCN projects. BCTC will address this item and make any necessary application for an accounting order from the Commission that allows a variance from GAAP in its next Revenue Requirements Application.

BC Hydro does not support BCTC’s recommendation to change to the Treatment under Examination. BC Hydro notes that there is no difference in the present value of the impact on ratepayers between the two accounting treatments and therefore no long term benefit to customers from the Treatment under Examination. BC Hydro agrees that the Treatment under Examination would not be consistent with GAAP and would require an accounting order from the Commission. In BC Hydro’s view, each CPCN project that was recorded under the Treatment under Examination would have a regulatory asset that would be in place for the life of the asset and would result in additional administrative costs in maintaining these regulatory assets indefinitely. BC Hydro observes that by continuing to record Allowance for Funds Used During Construction beyond the forecast in-service date to the start of the next fiscal year results in a higher revenue requirement in subsequent test years.

The Commission accepts the proposal by BCTC to address this item and make any necessary application for an accounting order from the Commission that allows a variance from GAAP in its next Revenue Requirements Application. In the Commission’s view the Treatment under Examination addresses both the uncertainty regarding the forecast in-service date and the capital costs of CPCN projects in a test year. The Commission does not accept that an accounting order that approves a change to the Treatment under Examination would require the establishment of a regulatory asset for the CPCN project(s). If BC Hydro wishes to pursue this matter further, BC Hydro may file a submission when BCTC applies for its accounting order.

Yours truly,

Original signed by

Erica M. Hamilton

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