BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-20-08

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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 Hydro and Power Authority
for Reconsideration of Commission Order No. G-10-08
regarding the Distribution Extension Allowances

BEFORE A.J. Pullman, Panel Chair
R.J. Milbourne, Commissioner
L.A. O'Hara, Commissioner

February 22, 2008

O R D E R

WHEREAS:

A. By Commission Order No. G-10-08 dated January 21, 2008, the Commission determined that British Columbia Hydro and Power Authority ("BC Hydro"), among other things, had not fully complied with the requirements of the Commission's October 26, 2007 Decision on Phase I of BC Hydro's 2007 Rate Design Application ("October 26, 2007 Decision") to calculate the present value of the revenue requirement used in the system extension test, and ordered BC Hydro to comply with the requirements of the October 26, 2007 Decision as specified at pages 185 through 187; and

B. On January 30, 2008, BC Hydro made its filings in compliance with Order No. G-10-08 and, among other things, provided information to the Commission on the total distribution revenue requirement calculated in accordance with Orders No. G-111-07 and G-10-08; and

C. Specifically, BC Hydro submitted that the direction in Order No. G-10-08 had gone further than what was proposed by the Terasen Utilities during the Phase I proceedings by requiring BC Hydro's distribution extension allowances ("Allowances") to be calculated on the basis of the component of the distribution revenue requirement that is both capital- and demand-related. BC Hydro stated that if the Commission intended that the Allowances be based on only 65 percent of the capital-related distribution costs, then

BC Hydro would request that its January 30, 2008 letter be accepted as a request for reconsideration of the method of calculating the Allowances ("Reconsideration Application"); and

D. By Commission Order No. G-18-08 dated February 1, 2008, the Commission Panel accepted the Reconsideration Application to proceed as a single phase process and set out the timetable and hearing process whereby BC Hydro was to file its written submissions on the merits of the reconsideration request by February 6, 2008; Intervenors were to file their written responses, if any, to BC Hydro's submissions by February 13, 2008; and BC Hydro was to file its reply submissions, if any, by February 14, 2008. In the cover letter to Order No. G-18-08, the Commission Panel invited submissions from both BC Hydro and Intervenors stating their views on the approach to estimating customer allowances toward new distribution extensions and specifically their views with respect to time period and inclusion of Operating and Other Expenses for calculating the customer allowances; and

E. By letter dated February 6, 2008, BC Hydro filed its submissions. In its submissions, BC Hydro stated that it does not believe that the use of 65 percent of capital-related distribution costs is appropriate, nor supported by the record. It submitted that the Terasen Group of Utilities ("Terasen Utilities") did not argue that the calculation should be based on the portion of the revenue requirement that is both capital-related and demand-related. BC Hydro submitted that for the purposes of the reconsideration decision, the Allowances should be based on the present value of all capital-related costs using a 20-year life and an 8 percent discount rate, as set out in BC Hydro's compliance filing of January 30, 2008; and

F. By letter dated February 11, 2008, FortisBC Inc. ("FortisBC") filed submissions in support of BC Hydro's proposed methodology for calculating the Allowance. It stated that the Allowance should be based on the amount of net capital investment in distribution poles, conductors and transformers covered in the applicable rate, and that the amount to be recovered in rates is in fact the total distribution investment irrespective of whether it is customer- or demand-related; and

G. By letter dated February 12, 2008, the British Columbia Old Age Pensioners *et al*. filed submissions in support of BC Hydro's proposed methodology in determining the Allowance and stated its agreement with the observations by FortisBC in that regard; and

H. By letter dated February 13, 2008, the Terasen Utilities filed its submissions. It stated that if the BC Hydro Allowances are to be determined using a net present value methodology as proposed by BC Hydro and directed by the Commission in its October 26, 2007 Decision, then both the demand-related and customer-related portion of the net capital investment in distribution poles, conductors and transformers should be included in the determination of the Allowances; and

I. In its reply submission dated February 14, 2008, BC Hydro distinguished between the Terasen Utilities' support to include both demand-related and customer-related distribution costs in the determination of Allowances with the Terasen Utilities' position that only the costs of distribution poles, conductors and transformers should be included in the calculation. BC Hydro submitted that the use of a 20-year discount period, which results in a residential allowance of $1,475 per customer, appropriately recognizes that there are some upstream distribution costs included in the total distribution costs; and

J. The Commission Panel has reviewed the Reconsideration Application, the Intervenors' submissions, and BC Hydro's reply submission.

NOW THEREFORE the Commission accepts the January 30, 2008 Reconsideration Application for the reasons set out in the Reasons for Decision, attached as Appendix A to this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 22nd day of February 2008.

BY ORDER

Original signed by:

A.J. Pullman
Panel Chair

Attachment

British Columbia Hydro and Power Authority
2007 Rate Design Application Phase I
Request for Reconsideration of Commission Decision
regarding Distribution Extension Allowances

REASONS FOR DECISION

1.0 BACKGROUND

On March 15, 2007 British Columbia Hydro and Power Authority ("BC Hydro") filed its 2007 Rate Design Application ("2007 RDA", the "Application") with the British Columbia Utilities Commission (the "Commission"). Included in the Application was a request to modify its System Extension Test ("SET") for its Zone I customers. Following an Oral Public Hearing, the Commission issued interim Order No. G-111-07 dated September 19, 2007 (the "Interim Order") and a subsequent Decision issued concurrently with Order No. G-130-07 dated October 26, 2007 ("October 26, 2007 Decision").

The Interim Order directed BC Hydro, among other things, to revise the Fully Allocated Cost of Service Study ("FACOS") in its Application with a number of changes, the most relevant for the purpose of this Decision being to allocate the total distribution revenue requirement, from primary to meters and including related customer care costs, and directly assigned street lighting on a 65 percent demand-related, and 35 percent customer-related basis, and further required that BC Hydro file the revised FACOS within 60 days of the date of the Interim Order.

The October 26, 2007 Decision, at pages 185-187, denied BC Hydro's proposed SET policy and directed BC Hydro to make changes to its SET policy culminating in the following direction:

> "Accordingly, BC Hydro's proposed SET policy is not approved. The allocation methodology to be applied is to be the Commission Panel's finding of 65 percent demand/35 percent customer. The calculation is to cover the 20 years proposed by BC Hydro, and is to use BC Hydro's nominal weighted average cost of capital of 8 percent, as recommended by the Guidelines and BC Hydro's existing SET policy, rather than BC Hydro's proposed rate of 6 percent. BC Hydro is ordered to recalculate its allowance levels in Table 5-1 of this Decision using the methodology set out above, and file the recalculated allowance levels within 60 days of the Order issued concurrently with this Decision".

On November 15, 2007 BC Hydro made a filing in compliance with the Interim Order ("First Compliance Filing") composed of the following documents:

i. Appendix A – Cost of Service Model;
ii. Appendix B – F07/F08 Revenue Requirements Schedules;
iii. Appendix C – Rate Design Model;
iv. Appendix D – Rate Schedules effective April 1, 2008 (tracked and clean versions); and
v. Appendix F – Terms and Conditions effective April 1, 2008 (tracked and clean versions).

Following a review of the First Compliance Filing the Commission determined, *inter alia*, that BC Hydro had not fully complied with the requirements of the Decision to calculate the present value of the revenue requirement used in the SET, including only the depreciation and return portion of the distribution demand-related revenue requirement.

By Order No. G-10-08 dated January 21, 2008 the Commission directed BC Hydro to calculate the present value of the revenue requirement used in the SET including only the depreciation and return portion of the distribution demand-related revenue requirement and otherwise comply with the requirements of the Decision as specified at pages 185 through 187.

On January 30, 2008, BC Hydro made its filings in compliance with Order No. G-10-08 and provided information to the Commission on the total distribution revenue requirement calculated in accordance with Orders No. G-111-07 and G-10-08 ("Second Compliance Filing"). Specifically, BC Hydro submitted that the direction in Order No. G-10-08 had gone further than what was proposed by the Terasen Group of Utilities ("Terasen Utilities") during the Phase I proceedings by requiring BC Hydro's distribution extension allowances to be calculated on the basis of the component of the distribution revenue requirement that is both capital- and demand-related. BC Hydro stated that if the Commission intended that the allowances for distribution extensions be based on only 65 percent of the capital-related distribution costs, then BC Hydro would request that its January 30, 2008 letter be accepted as a request for reconsideration of the method of calculating the allowances for distribution extensions.

By Order No. G-18-08 dated February 1, 2008 the Commission stated that it had reviewed the submissions by BC Hydro and the criteria regarding the reasonable basis for allowing reconsideration, and concluded that the request for reconsideration should proceed as a single phase process. The Commission established a timetable whereby BC Hydro would file its written submissions on the merits of the reconsideration request by Wednesday, February 6, 2008; Intervenors would file their written responses, if any, to BC Hydro's submissions by Wednesday, February 13, 2008; and BC Hydro would file its reply submissions, if any, on Thursday, February 14, 2008.

In the covering letter to Order No. G-18-08 the Commission Panel stated that it "finds that the January 30, 2008 letter from BC Hydro raises a valid concern about the potential likelihood of an error in either the October 26, 2007 Decision, which directs BC Hydro to use a 20-year period rather than the entire life of 35 to 40 years to estimate distribution demand-related revenue or the likelihood of error in Order No. G-10-08, which requires the exclusion of the Operating and Other Expenses in the calculation of revenue requirement. The Commission Panel therefore finds that BC Hydro has been able to establish, on a *prima facie* basis, that there is a potential likelihood of an error in fact or law in paragraph 4 of Commission Order No. G-10-08 in the submissions contained in the letter dated January 30, 2008".

2.0 BC HYDRO'S SUBMISSION

In Exhibit B-2 dated February 6, 2008, BC Hydro submits that in the 2007 RDA it proposed to base the maximum allowances for new distribution extensions ("Allowances") on the present value of the distribution demand-related revenue requirement over a 20-year period, and that since its rates were bundled and did not separately identify the portion of the rate that recovers distribution demand-related costs, it proposed to use as a proxy the demand-related costs assigned to each rate class in its FACOS. For residential customers, the resulting Allowance was proposed to be $1,900 per customer.

BC Hydro submits that the only Intervenor who had submitted evidence concerning Allowances had been the Terasen Utilities, who had retained EES Consulting ("EES"), and that EES had proposed that the Allowance for new distribution extensions be based on the amount of net investment in distribution poles, conductors and transformers covered in the applicable rate. For residential customers, the resulting Allowance was proposed to be $1,300 based on a 50 percent/50 percent demand-customer allocation methodology.

BC Hydro notes that in its Argument the Terasen Utilities had submitted that the distribution demand-related revenue consists of revenue to pay for operating costs and revenue to pay for capital expenditures and that if BC Hydro wanted to include all distribution-related revenue in the Allowance calculation, then the costs should include both the capital cost of the extension and the projected 20-year annual distribution operating costs. The Terasen Utilities had submitted that the preferable approach would be for the Allowance to be based only on the revenue collected to pay for capital expenditures, consistent with the Allowance methodology proposed by EES (Terasen Utilities Argument, para. 83).

BC Hydro notes that in its Reply Submissions in the original proceeding it acknowledged that the distribution-related revenue used to determine its proposed Allowances included revenue related to the recovery of operating costs but that it had noted that it only used 20 years of distribution-related revenue in its calculation rather than the entire life of approximately 40 years (BC Hydro Reply, p. 30).

BC Hydro further notes the October 26, 2007 Decision where the Commission Panel indicated that it was persuaded by Terasen's argument that the more correct approach is to calculate the present value of only the depreciation and return portion of the distribution demand revenue requirement, and directed that the allocation methodology to be applied was to be the Commission Panel's finding of 65 percent demand-related and 35 percent customer-related, using a 20-year life and a cost of capital of 8 percent.

BC Hydro states that in its First Compliance Filing it had calculated the Allowances based on the present value of the demand-related distribution costs over 20 years at 8 percent, which resulted in a proposed Allowance of $1,500 per residential customer, and that in Order No. G-10-08, the Commission directed it to recalculate the Allowances including only the depreciation and return portion (capital-related portion) of the distribution demand-related revenue requirement.

In its Second Compliance Filing BC Hydro provided the following data, which set out the total distribution revenue requirement:

$million	**Demand-related**	**Customer-related**	**Total**
Capital-related	225.9	121.6	347.5
Operating & Other	133.6	71.9	205.5
Total	359.5	193.5	553.0

(Source: Exhibit B-2, p. 2)

In its Second Compliance Filing BC Hydro also provides an analysis of the above data as follows:

Cost Category	**$ million**
Depreciation & Amortization	118.61
Finance Charges	126.74
Allowed Net Income	102.19
Total Capital Related	347.54
OM&A Expenses	174.01
Taxes	23.70
Miscellaneous Revenues	(17.12)
Internal Allocation (Substation Distribution Assets)	24.90
Total Operating & Other	205.49

(Source: Schedule 2.2, p. 5 of 16)

BC Hydro states that in its Second Compliance Filing it calculated that the residential Allowance using 100 percent of the capital-related portion of the distribution revenue requirement would be $1,475 per customer, and that the residential Allowance using the portion of the distribution revenue requirement that is both capital-related and demand-related would be $800 per customer.

BC Hydro submits that it does not believe that the use of 65 percent of the capital-related distribution costs is appropriate, nor supported by the record of the proceeding. BC Hydro notes that the use of 65 percent of the capital-related distribution costs results in an Allowance for residential customers of only $800, which is even less than the Allowance of $1,300 proposed by Terasen which was based on the amount of investment in distribution poles, conductors and transformers covered in the applicable rate.

BC Hydro submits that the Commission mischaracterized the Terasen Utilities' argument regarding the use of capital-related costs to determine distribution extension allowances, and that paragraph 83 of the Terasen Utilities' Argument had been that the "allowance should be based only on the revenue collected to pay for capital expenditures, consistent with the SET allowance methodology proposed by EES". BC Hydro submits that in determining the amount of investment in distribution poles, conductors and transformers, the Terasen Utilities had, as indicated in its evidence at Exhibit C7-4, EES-7, pages 13-14, included both the portion of the investment in distribution poles, conductors and transformers that was classified as demand-related and the portion that was classified as customer-related, and that in consequence to use just the portion of the revenue requirement that is both capital-related and demand-related would be inconsistent with the approach proposed by EES. BC Hydro submits that, contrary to the wording on page 186 of the October 26, 2007 Decision, Terasen did not argue that the calculation should be based on the portion of the revenue requirement that is both capital-related and demand-related.

BC Hydro also submits that classifying some capital-related distribution costs as customer-related does not affect the fact that these costs are associated with investment in distribution property regardless of whether the customer-related portion of the distribution property is determined by a minimum system study, a zero intercept study or some other method. BC Hydro submits that although classifying some distribution costs as customer-related affects the allocation of costs to rate classes, the associated distribution property is none-the-less integral to the provision of distribution extensions to customers. Therefore, BC Hydro submits that there is no reason why that portion of the capital-related costs that is classified as customer-related for the purposes of cost allocation should not be included in the determination of Allowances. BC Hydro states that using only that portion of the distribution revenue requirement that is both demand-related and capital-related would not only exclude operating costs from the calculation, but would also exclude 35 percent of the distribution property that is required to provide service to customers.

BC Hydro further submits that the present value of the capital-related costs of an asset mathematically should not be less than the book value of the asset, observing that “Terasen calculated the net and gross book values of the distribution poles, wires and fixtures for residential customers to be $1,300 and $2,200 per customer, respectively. An allowance of only $800 per residential customer would be less than both than net and gross book value per customer” (Exhibit B-2, p. 4).

In response to the cover letter to Order No. G-18-08, where the Commission Panel had indicated that it would benefit from submissions on the time period to be used in the determination of Allowances, BC Hydro provides following table to demonstrate the Allowances that would result from calculating the present value (at 8 percent) over periods of 20 and 40 years.

	Total Capital-Related		65% of Capital-Related		
	NPV 20 Years	**NPV 40 Years**	**NPV 20 Years**	**NPV 40 Years**	
Residential	1,475	1,800	800	975	$/customer
Gen Service < 35 kW	200	250	200	250	$/kW
Gen Service > 35 kW	200	250	200	250	$/kW
Irrigation	150	175	125	150	$/kW
Street Lights	150	175	100	100	$/fixture

BC Hydro submits that it proposed the use of 20 years in part to recognize that there were some operating costs included in the distribution demand-related revenue requirement, and adds “in fairness” that it recognizes that the use of all distribution capital-related costs would include “some upstream distribution costs” and that therefore the use of a time period of less than 40 years might be appropriate.

BC Hydro notes that in the October 26, 2007 Decision, the Commission had directed the use of an 8 percent discount rate rather than the 6 percent real discount rate it had proposed, and states that it considers the direction to use the nominal 8 percent discount rate to be an error, which BC Hydro does not propose to address in this reconsideration and states that it will address an “appropriate discount rate” in its next rate design application.

BC Hydro observes that using the component of the distribution revenue requirement that is both capital-related and demand-related will cause an increase of over $1,000 per connection to the cost incurred by developers and homeowners for new extensions, compared to the current extension policy, and submits that since none of the parties that would be materially and adversely affected by such a drastic change would have had any reason to anticipate such a change and intervene in the proceeding, the Commission should be reluctant to establish Allowances that are outside the range of alternatives proposed by participants in the proceeding.

Finally, BC Hydro submits that for the purposes of this Decision the Allowances should be based on the present value of all capital-related costs using a 20-year life and an 8 percent discount rate, as set out in BC Hydro’s Second Compliance Filing and in the first column of the Table above.

3.0 SUBMISSIONS OF THE INTERVENORS

Three Intervenors make written submissions: the Terasen Utilities, FortisBC Inc. ("FortisBC") and the BC Old Age Pensioners Organization *et al*. ("BCOAPO").

In Exhibit C3-1 dated February 13, 2008, the Terasen Utilities submit that if the BC Hydro Allowances are to be determined using an NPV methodology as proposed by BC Hydro and directed by the Commission Panel at page 187 of the October 26, 2007 Decision, then both the demand-related and the customer-related portion of the net capital investment in distribution poles, conductors and transformers should be included in the determination of the Allowances.

The Terasen Utilities submit that only the costs of distribution poles, conductors and transformers should be included in the calculation, and that based on the allocation of distribution costs approved in the Decision (65 percent demand-related and 35 percent customer-related) the EES methodology would produce an Allowance of $1,265 per customer compared to an Allowance of $1,475 per customer proposed by BC Hydro, which would result in new residential electric customers receiving an extension Allowance that is $210 per customer higher than the average net distribution investment per existing customer ($1,475 per BC Hydro's methodology less $1,265 per the EES methodology).

The Terasen Utilities observe that on page 4 of Exhibit B-2, BC Hydro acknowledges that some upstream distribution costs are included if the Allowances are based on all distribution capital-related costs, and suggest that these upstream distribution costs are substation costs. The Terasen Utilities submit that to the extent that such upstream distribution costs are included in the calculations, the Allowances will be overstated. The Terasen Utilities also note that BC Hydro in both its January 30, 2008 Letter (at page 4) and its February 6, 2008 Submission (at page 3), uses the Terasen Utilities' position that the investment in distribution poles, conductors and transformers should be used in the determination of Allowances as support for the BC Hydro arguments. The Terasen Utilities submit that in the NPV methodology that the Commission has determined to be appropriate both the demand-related and the customer-related portions of net capital investment should be included, but that the investment should be limited to the investment in distribution poles, conductors and transformers. Capital investment in upstream distribution facilities such as substations should not be part of the calculation of Allowances since the customer or developer who receives an Allowance is not required to pay a customer contribution related to such upstream facilities.

The Terasen Utilities then address the time period to be used in the NPV approach to determining distribution Allowances, noting that BC Hydro proposed a 20-year period, that in the Decision the Commission Panel directed the use of a 20-year period, and that neither BC Hydro nor any Intervenor has sought reconsideration of the use of a 20-year period. The Terasen Utilities submit that the 20-year period should not be open for further consideration by the Commission in this proceeding, but that if the Commission intends to further consider in this proceeding the appropriateness of a 20-year period (which the Terasen Utilities submit the Commission should not), then the Terasen Utilities submit that the period should be limited to 20 years on the grounds that BC Hydro's proposed extension test model is a simplified approach rather than a rigorous economic analysis of the particular costs and revenues pertaining to a system extension, and that the uncertainties inherent in a simplified approach suggest that a "shorter time horizon is warranted".

The Terasen Utilities also address the inclusion of Operating and Other Expenses in the calculation of Allowances and refer to paragraph 83 of the Terasen Utilities' Argument, which stated that it would be illogical to use the revenues associated with the recovery of operating and other expenses to determine an Allowance that relates to capital expenditures. The Terasen Utilities note that this is a matter respecting which BC Hydro did not seek reconsideration.

Terasen Utilities then address BC Hydro's submission that it considers the Commission direction to use an 8 percent discount rate in its extension Allowance calculations to be in error and that it will address the matter of the appropriate discount rate in its next rate design application, and submits that if the 20-year period in the NPV approach is to be considered further that should also be a subject in BC Hydro's next rate design application, together with all other issues that relate to the Allowances.

The Terasen Utilities note that there has been one significant change of facts and circumstances that have arisen since the Decision, citing the fact that the Province of British Columbia has recently made changes to the definition of equity for BC Hydro by way of Orders in Council (OICs 027/08 and 028/08, both dated January 17, 2008) and has introduced the concept of a deemed equity component for ratemaking purposes and submit that these changes mean that some of the evidence in the 2007 BC Hydro RDA proceeding with respect to system extensions and the rate impact of customer contributions will be "no longer be valid going forward", with the result that the implications of OICs 027 and 028 on the distribution Allowances may have to be reviewed in BC Hydro's next rate design application (Exhibit C3-1).

FortisBC submits that BC Hydro's proposal supports generally accepted rate making principles and that the methodology for calculating the Allowance for new distribution extensions should be based on the amount of net capital investment in distribution poles, conductors and transformers covered in the applicable rate. The amount to be recovered in rates is in fact the total distribution investment irrespective of whether it is customer or demand related (Exhibit C1-1).

BCOAPO agrees with FortisBC (Exhibit C2-1).

4.0 BC HYDRO'S REPLY SUBMISSIONS

In its Reply Submission dated February 14, 2008, BC Hydro noted that its submission of February 6, 2008 acknowledged that the use of all distribution capital-related costs would include some upstream distribution costs, and that therefore the use of a period of less than 40 years might be appropriate in the determination of the extension allowances, and that was the reason it had submitted that the distribution extension allowances should be based on a 20-year discount period, rather than a 40-year period that had been used in the previous SET methodology.

BC Hydro submits that if the determination of the Allowances were to be based only on the capital-related costs associated with distribution poles, conductors and transformers, then a discount period of 40-years would be appropriate and suggests that the residential distribution extension allowance that would result from the use of a 40-year discount period, applied to all distribution capital-related costs, would be $1,800 per customer and lower than that if the calculation were based on the capital-related costs associated with distribution poles, conductors and transformers. Since the capital-related costs associated with distribution poles, conductors and transformers were not identified in the cost of service study and are not on the record of the 2007 RDA proceeding, BC Hydro submits that the use of a 20-year discount period, which results in a residential allowance of $1,475 per customer, appropriately recognizes that there are some upstream distribution costs included in the total distribution costs.

BC Hydro further submits that the fact that the proposed EES methodology would have resulted in a residential allowance of $1,265 per customer, is not relevant in this reconsideration since the Commission did not accept the proposed EES methodology.

In summary, BC Hydro submits that for the purposes of this Decision the Allowances should be based on the present value of all capital-related distribution costs using a 20-year discount period and an 8 percent discount rate, as set out in BC Hydro's compliance filing of January 30, 2008.

5.0 COMMISSION DETERMINATION

The Commission Panel notes that " EES' evidence was that the guiding principle behind system extension charges should be fairness to all customers, and the objective would be to collect enough money from a new customer to hold harmless all other customers from the incremental costs of supplying new localized distribution poles, conductors and transformers" (Terasen Utilities Argument, para. 83).

The Commission Panel also notes that in BC Hydro's Application it stated "Therefore, to simplify BC Hydro's distribution extension policy in a manner consistent with the BCUC's System Extension Test Guidelines and to maintain average BC Hydro contributions comparable to previous generations of new customers, BC Hydro is proposing to base the maximum amount that BC Hydro would invest in a new distribution extension <u>on the present value of the expected distribution demand-related revenue over a 20-year period"</u> (emphasis added) (Exhibit B-1, pp. 56-7).

This was pursued during the hearing by the Chairperson as the following exchange demonstrates:

> "THE CHAIRPERSON: So what are the variables then here? Obviously 20 years is one, 6 percent is another. I guess, does how you allocate distribution costs between demand and customer, does that impact this?
>
> MS. SOFIELD: A: Yes, it does" (T8:1279).

The Commission Panel further notes that the submissions of BC Hydro and of the three intervenors in this Reconsideration are unanimous that the allocation of distribution capital-related costs between demand-related and customer-related is not relevant for the purpose of determining Allowances and that all parties now advocate that both the demand-related and customer-related portion of distribution capital-related costs should be included in the determination of the Allowances.

The Commission Panel concurs with all parties in this regard.

The Commission Panel observes the Terasen Utilities' concern over BC Hydro's inclusion of "some upstream distribution costs" in its calculation, but also notes that in its Second Compliance Filing BC Hydro did not include depreciation in respect of Substation Distribution Assets ("SDA") in its calculation of the capital-related portion of the distribution revenue requirement of $347.5 million.

In addition, the Commission Panel notes that BC Hydro appears to have included in its calculation of the capital-related portion of the distribution revenue requirement of $347.5 million, depreciation allocated from Engineering, Field Services and Corporate Services in the amount of $26.57 million (Schedule 2.2, p. 5 of 16).

For these reasons, the Commission Panel agrees with BC Hydro that the possible inclusion of capital-related charges that do not relate to "downstream distribution assets" justifies the use of a 20-year period to calculate the Allowances.

The Commission Panel accepts Terasen's submissions concerning OICs 027/08 and OIC 028/08 which may render some of BC Hydro's evidence "no longer valid" in the future, and that the 8 percent discount rate should be addressed by BC Hydro in its next rate design application.

Accordingly, the Commission Panel approves the following Allowances:

Residential	**1,475**	**$/customer**
General Service < 35 kW	**200**	**$/kW**
General Service > 35 kW	**200**	**$/kW**
Irrigation	**150**	**$/kW**
Street Lights	**150**	**$/fixture**

The Commission Panel finds that BC Hydro is to address the following items in its next rate design application:

- the selection and definition of a guiding principle for the determination of Allowances;
- how the Allowances should be calculated;
- the period to be covered by the analysis; and
- the suitable discount rate to be used.