

Hi Carl:  
s.13; s.17

s.13; s.17

Attached is some analysis based on discussions with BC Hydro

yesterday.

Do you have some time this afternoon where we could discuss this material and your progress? I am available between 2:00 and 4:00.

*Les MacLaren*

Assistant Deputy Minister

Electricity and Alternative Energy Division

BC Ministry of Energy, Mines and Petroleum Resources

Office: 250-952-0204

s.22

*Energizing BC—clean, sustainable and productive*

## Crockett, Janine EMPR:EX

---

**From:** Layton, Ryan <ryan.layton@bchydro.com>  
**Sent:** October 19, 2017 12:09 PM  
**To:** MacLaren, Les EMPR:EX; Wieringa, Paul EMPR:EX  
**Cc:** Yaremko, Cheryl  
**Subject:** RE: Follow up  
**Attachments:** Reg Account Balances F18Q1 Revised Service Plan Forecast.pdf

Hi all:

Please see attached for use at this afternoon's discussion.

The table shows each of our regulatory accounts in use or with a balance as at the time of our F18 Q1 Financial Forecast (i.e., the forecast underlying the September 2017 Service Plan). For each account, two amounts are shown:

1. The forecast balance at the end of Fiscal 2018. This column shows the writeoff amount that would be estimated were the account to be written off at the end of Fiscal 2018. Those accounts with balances shown in parentheses, such as Total Finance Charges (\$150) means that the balance at the end of F2018 is forecast to be a credit (i.e., an amount to be refunded to ratepayers) and thus for which writeoffs are not applicable; and
2. The forecast amortization in Fiscal 2019. This column shows the savings, in the form of amortization that will not occur in Fiscal 2019, if the account balance is written off in Fiscal 2018. There are complications here regarding the Cost of Energy Variance Accounts (as these are collected in rates via the Deferral Account Rate Rider) that we can discuss on our call. Those accounts with balances in parentheses are those for which savings would apply in Fiscal 2019 if their balance was written off in Fiscal 2018. For example, Smart Metering & Infrastructure Program (\$31) means that there is forecast to be \$31 million in amortization expense in Fiscal 2019. Conversely, Total Finance Charges \$102, as a result of the credit balance mentioned above is a 'refund' to customers of \$102 million in Fiscal 2019.

In case you are wondering, the Mining Customer Payment Plan Regulatory Account does not appear in the list as it is neither in use nor with a balance. It would only become in use and with a balance if an amount owing by a participating customer were deemed to be impaired, per the terms and conditions of the program. Unless that occurs, the amounts owing are long-term receivables and do not involve a regulatory account. All other accounts are shown on the list.

Ryan

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**From:** Yaremko, Cheryl  
**Sent:** 2017, October 19 11:36 AM  
**To:** Layton, Ryan  
**Cc:** MacLaren, Les EMPR:EX; Wieringa, Paul EMPR:EX  
**Subject:** Re: Follow up

We will set up a call at 3:30.

On Oct 19, 2017, at 11:16 AM, Layton, Ryan <[ryan.layton@bchydro.com](mailto:ryan.layton@bchydro.com)> wrote:

Hi Les:

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Hi Les (and Paul)

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**From:** MacLaren, Les EMPR:EX [<mailto:Les.MacLaren@gov.bc.ca>]  
**Sent:** 2017, October 19 6:52 AM  
**To:** Layton, Ryan  
**Cc:** Yaremko, Cheryl; Wieringa, Paul EMPR:EX  
**Subject:** RE: Re: Follow up

Thanks Ryan

Is there a configuration of regulatory account write offs that would offset the 3% increase scheduled for April 1, 2018? Government is looking at this as a rate freeze commitment option, so we need to have an option in that context. If it is more than \$1B, then we need to understand the implications of that. We are getting jammed to meet the Cabinet schedule, so will need something today to incorporate into our submission.

Les

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**From:** Layton, Ryan [<mailto:ryan.layton@bchydro.com>]  
**Sent:** Wednesday, October 18, 2017 8:13 PM  
**To:** MacLaren, Les EMPR:EX  
**Cc:** Yaremko, Cheryl  
**Subject:** Re: Follow up

Hi Les:

Thanks for our discussion earlier this morning regarding the email chain below. We have done some initial modelling, including the following assumptions:

- Write-off of the forecast Rate Smoothing Regulatory Account balance at the end of Fiscal 2018 (\$766 million). As this account was forecast to have additions in Fiscal 2019, writing off the balance at the end of fiscal 2018 doesn't assist with Fiscal 2019 rates, but does help in the later years of the 10 Year Rates Plan as this amount does not need to be recovered from ratepayers.
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As we have mentioned before, the rate freeze results in approximately \$140 million lower domestic tariff revenue (plus approximately \$7 million lower deferral account rate rider revenue. In addition, we were forecasting to add approximately \$288 million to the Rate Smoothing Regulatory Account in Fiscal 2019. **s.13; s.17**

**s.13; s.17**

Note that the figures above are all estimates that change each time we prepare a new quarterly financial forecast update.

We are doing further work on the impact of a writeoff of the Rate Smoothing Regulatory Account forecast balance of \$766 million at the end of Fiscal 2018 in terms of the impact it would have on rates for future years, but we know you were interested in the Fiscal 2019 situation and hence wanted to provide you with this information now.

Please let us know if you have any questions. We'd suggest that a follow up call tomorrow would be useful – please let us know and we can set something up.

Thanks

Ryan

---

**Ryan Layton CPA, CA** | Director of Finance – Planning, Forecasting & Risk

**BC Hydro**

333 Dunsmuir St, 17th floor  
Vancouver, BC V6B 5R3

**P** 604 623 3865

**M** 604 897 5427

**E** [ryan.layton@bchydro.com](mailto:ryan.layton@bchydro.com)

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Begin forwarded message:

**From:** "MacLaren, Les MEM:EX" <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)>

**Date:** October 11, 2017 at 4:17:22 PM PDT

**To:** "Yaremko, Cheryl" <[Cheryl.Yaremko@bchydro.com](mailto:Cheryl.Yaremko@bchydro.com)>

**Subject:** RE: Follow up

Thanks Cheryl. This is helpful and yes we are interested in understanding the rate impacts and how they might be different depending on which accounts you chose to write off.

It might be easier if we had another slide to walk elected officials through the mechanics of how a write off would occur and the impacts to your and our financial statements. Assume there would have to be some sort of direction from government to your Board (and BCUC?), then the impact on regulatory assets and corresponding write down of equity flowing to your income statement and then the fiscal plan. Suggesting doing a hypothetical \$1B write down based on current F18 forecast net income.

Les

**From:** Yaremko, Cheryl [<mailto:Cheryl.Yaremko@bchydro.com>]

**Sent:** Wednesday, October 11, 2017 4:00 PM

**To:** MacLaren, Les MEM:EX

**Subject:** RE: Follow up

And here's the attachment.

**From:** Yaremko, Cheryl  
**Sent:** 2017, October 11 3:59 PM  
**To:** Les MacLaren ([Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca))  
**Subject:** Follow up

Hi Les,

Attached are a few slides we had that cover how a regulatory account write-off would work. It is pretty high level, but covers the main considerations. It happened to include the impact a \$1B write-off would have on the debt to equity ratio. The thing it doesn't note explicitly is that the hit to our net income flows through to be a hit to the fiscal plan.

The second slide I've attached includes a couple of suggestions on which regulatory accounts you might pick if you were going to pick some to write-off. As I mentioned, we tried to think of ones that the BCUC might not have approved without direction, which was the rate smoothing and the First Nations Settlements. They roughly total \$1B, although rate smoothing will increase to \$770m by the end of F18 from the \$569m in July on the slide. s.13; s.17

s.13; s.17

We had not yet run the rate impact of doing this write-off, but I'm assuming you'll want that, so we've started to work on it. The rate smoothing write-off impact will have a significant impact on rate increases as the recovery of the account was to occur by F2024. The FN one might not be as significant as it had a longer amortization period. s.13; s.17

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The third slide I attached is just for you in case it is useful - it summarizes our journey towards getting to a "normal utility" financial structure, and that govt could more there move quickly if that was of interest to them, although it would come with a fiscal plan hit.

Let me know if you want us to pull something more fulsome together.

Cheryl

---

**Cheryl Yaremko** | EVP Finance & Business Services and CFO

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P 604 623 4110

E [cheryl.yaremko@bchydro.com](mailto:cheryl.yaremko@bchydro.com)

[bchydro.com](http://bchydro.com)

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-BCHydroDisclaimerID5.2.8.1541

		F2018	F2019
	(\$ million)	Forecast Closing Balance	Forecast Amortization
<b>Cost of Energy Variance Accounts</b>			
1	Heritage Deferral Account	(\$118)	\$52
2	Non-Heritage Deferral Account	542	(238)
3	Trade Income Deferral Account	128	(56)
	Total	552	(242)
<b>Other Cash Variance Accounts</b>			
4	Storm Restoration Costs	30	(10)
5	Amortization of Capital Additions	(6)	3
6	Total Finance Charges	(150)	102
7	Rock Bay Remediation	(18)	(0)
8	Arrow Water Systems	-	-
9	Asbestos Remediation	(6)	(31)
10	Real Property sales	15	-
11	Minimum Reconnection Charges	-	-
	Total	(135)	64
<b>Non-Cash Variance Accounts</b>			
12	Foreign Exchange Gains/Losses	(25)	38
13	Non-Current Pension Costs	479	(31)
14	Debt Management	(102)	-
	Total	352	7
<b>Benefit Matching Accounts</b>			
15	Demand-Side Management	939	(102)
16	First Nations Costs	106	(39)
17	Site C	471	-
18	Future Removal & Site Restoration	3	-
19	Pre-1996 Contributions in Aid of Construction	88	(5)
20	Smart Metering & Infrastructure Program	239	(31)
21	Capital Project Investigation Costs (closed)	15	(5)
	Total	1,862	(182)
<b>Non-Cash Provisions</b>			
22	First Nations Provisions	409	-
23	Arrow Water Systems Provision	3	-
24	Environmental Provisions	290	-
	Total	702	-
<b>Rate Smoothing Accounts</b>			
25	Rate Smoothing	766	-
	Total	766	-
<b>IFRS Transition Accounts</b>			
26	IFRS Pension	535	(28)
27	IFRS PP&E	1,025	(38)
	Total	1,561	(66)
	<b>Total</b>	<b>\$ 5,660</b>	<b>\$ (419)</b>



## Crockett, Janine EMPR:EX

---

**From:** Layton, Ryan <ryan.layton@bchydro.com>  
**Sent:** October 19, 2017 5:44 PM  
**To:** MacLaren, Les EMPR:EX; Wieringa, Paul EMPR:EX  
**Cc:** Yaremko, Cheryl  
**Subject:** RE: Follow up

Hi Les and Paul:

Thanks for the discussion this afternoon.

To sum up, here are the two scenarios discussed:

1. Regulatory account writeoffs done in Fiscal 2018 to save \$140 million in Fiscal 2019 to offset revenue that would have been received with the 3% rate increase. s.13; s.17  
s.13; s.17

Regulatory Account	Forecast Fiscal 2018 write off	Forecast Fiscal 2019 amortization savings
Demand Side Management	\$939 million	\$102 million
Smart Metering & Infrastructure	\$239 million	\$31 million
Capital Project Investigation	\$15 million	\$5 million
Total	\$1,193 million	\$138 million

2. Rate Smoothing Regulatory Account writeoff in Fiscal 2018, followed by BC Hydro net income / *Fiscal Plan* impact in Fiscal 2019. This results in a required rate increase to be equal to 0% and likely carries less risk that the BCUC decides to set rate increases for Fiscal 2019 of 3% (because it doesn't have any balance in, or transfers to, the Rate Smoothing Regulatory Account).

Item	Amount
Rate Smoothing Regulatory Account Fiscal 2018 writeoff	\$766 million
Lower Fiscal 2019 BC Hydro net income / 2018/19 <i>Fiscal Plan</i> impact (\$140 million lower revenues caused by the rate freeze + \$290 million planned F2019 transfers to the Rate Smoothing Regulatory Account)	\$430 million
Total	\$1,196 million

The total impacts of the above are nearly identical, but note that the impact in option 1 (the writeoff) is all felt in Fiscal 2018. The option 2 impact is split between Fiscal 2018 and Fiscal 2019.

Please let us know if you have any questions on the above.

Thanks

Ryan

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**BC Hydro**

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**P** 604 623 3865

**M** 604 897 5427

**E** [ryan.layton@bchydro.com](mailto:ryan.layton@bchydro.com)

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Les

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**Sent:** Wednesday, October 11, 2017 4:00 PM

**To:** MacLaren, Les MEM:EX

**Subject:** RE: Follow up

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**Sent:** 2017, October 11 3:59 PM  
**To:** Les MacLaren ([Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca))  
**Subject:** Follow up

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-BCHydroDisclaimerID5.2.8.1541

**From:** [MacLaren, Les EMPR:EX](#)  
**To:** [Haslam, David GCPE:EX](#)  
**Cc:** [Wieringa, Paul EMPR:EX](#); [De Champlain, Rhonda EMPR:EX](#)  
**Subject:** Com Plan\_Rate Freeze\_Oct25  
**Date:** October 25, 2017 1:52:02 PM  
**Attachments:** [Com Plan\\_Rate Freeze\\_Oct25.docx](#)

---

Hi David:

We are going back to PAC next week on the rate freeze. **s.13**

**s.13**

**s.13; s.17**

Les



Page 017 of 225 to/à Page 021 of 225

Withheld pursuant to/removed as

s.13; s.17

**From:** [Foster, Doug FIN:EX](#)  
**To:** [MacLaren, Les EMPR:EX](#)  
**Subject:** FW: .....continuing saga.....as the sub turns.....  
**Date:** October 26, 2017 6:53:49 AM  
**Attachments:** [CS - BC Hydro Rate Freeze 25-10-17 Final.docx](#)

---

s.13; s.17

Just something for us to be mindful of.

d.

---

**From:** MacLaren, Les EMPR:EX <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)>  
**Sent:** Wednesday, October 25, 2017 5:49 PM  
**To:** Foster, Doug FIN:EX  
**Subject:** RE: .....continuing saga.....as the sub turns.....

Signed and submitted. Today was the deadline for PAC Nov 2. Here is the version MMM signed.

Les

---

**From:** Foster, Doug FIN:EX  
**Sent:** Wednesday, October 25, 2017 5:33 PM  
**To:** MacLaren, Les EMPR:EX  
**Subject:** .....continuing saga.....as the sub turns.....

new draft soon?

d

Page 023 of 225 to/à Page 036 of 225

Withheld pursuant to/removed as

s.13; s.17

**From:** [MacLaren, Les EMPR:EX](#)  
**To:** [Sanderson, Melissa EMPR:EX](#)  
**Cc:** [Wieringa, Paul EMPR:EX](#); [McNish, James EMPR:EX](#)  
**Subject:** FW: CS - BC Hydro Rate Freeze  
**Date:** October 24, 2017 11:29:00 AM  
**Attachments:** [CS - BC Hydro Rate Freeze 24-10-17.docx](#)  
[Regulatory Accounts 24-10-17.docx](#)

---

Hi Melissa:

As discussed yesterday afternoon, this is the submission I wanted to speak to the Minister about at our 3 pm briefing this afternoon. The BC Hydro rate freeze platform commitment was discussed at PAC on October 5, and **s.13; s.17**

**s.13; s.17**

We have incorporated changes,

tracked against the October 5 submission, to support that discussion. I can walk you and the Minister through this material.

Les

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Tuesday, October 24, 2017 11:21 AM  
**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX; Lianga, Diane FIN:EX  
**Cc:** Wieringa, Paul EMPR:EX  
**Subject:** RE: CS - BC Hydro Rate Freeze  
Attached is the next turn, with additional tracked changes against the submission that went to PAC October 5. **s.13; s.17**  
**s.13; s.17**

I will use this version to brief my Minister this afternoon. If you have edits please let me know. This needs to be signed and submitted tomorrow.

Les

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Monday, October 23, 2017 5:34 PM  
**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX  
**Subject:** CS - BC Hydro Rate Freeze 23-10-17

The attached is tracked against the prior submission that went forward at the beginning of the month. I have tried to set out the options related to regulatory accounts in a straightforward manner, but it is likely still too complex, and I am sure you will have corrections.

Comments welcome.

Les

Page 038 of 225 to/à Page 049 of 225

Withheld pursuant to/removed as

s.13; s.17

## Appendix 1 – BC Hydro Regulatory Accounts

s.13; s.17

## **Appendix 1 – BC Hydro Regulatory Accounts**

s.13; s.17

**From:** [Foster, Doug FIN:EX](#)  
**To:** [MacLaren, Les EMPR:EX](#)  
**Cc:** [Gonzalez, Selina FIN:EX](#); [Fischer, Carl M FIN:EX](#); ["Yaremko, Cheryl"](#); ["Layton, Ryan"](#); [Lianga, Diane FIN:EX](#)  
**Subject:** FW: CS - BC Hydro Rate Freeze  
**Date:** October 24, 2017 4:04:05 PM  
**Attachments:** [Regulatory Accounts 24-10-17.docx](#)  
[CS - BC Hydro Rate Freeze 24-10-17 - LM - DF.docx](#)

---

I have placed my comments on top of your red line changes.  
d.

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Tuesday, October 24, 2017 11:21 AM  
**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX; Lianga, Diane FIN:EX  
**Cc:** Wieringa, Paul EMPR:EX  
**Subject:** RE: CS - BC Hydro Rate Freeze  
Attached is the next turn, with additional tracked changes against the submission that went to PAC  
October 5. **s.13; s.17**  
**s.13; s.17**

I will use this version to brief my Minister this afternoon. If you have edits please let me know. This needs to be signed and submitted tomorrow.  
Les

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Monday, October 23, 2017 5:34 PM  
**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX  
**Subject:** CS - BC Hydro Rate Freeze 23-10-17

The attached is tracked against the prior submission that went forward at the beginning of the month. **s.13; s.17**

**s.13; s.17**

and I am sure you will have corrections.

Comments welcome.

Les



## Appendix 1 – BC Hydro Regulatory Accounts

s.13; s.17

## Appendix 1 – BC Hydro Regulatory Accounts

s.13; s.17

Page 055 of 225 to/à Page 068 of 225

Withheld pursuant to/removed as

s.13; s.17

**From:** [Fraser, Janet](#)  
**To:** [MacLaren, Les](#) EMPR:EX  
**Subject:** FW: Rates freeze letter to BCUC  
**Date:** October 31, 2017 1:45:22 PM  
**Attachments:** [01\\_F17\\_F19\\_RRA\\_LTRfj.docx](#)

---

Fyi - this is the version you had earlier - please review on your side and let me know if there are any issues.

---

Janet Fraser | Senior Vice-President  
People, Customer & Corporate Affairs

BC Hydro  
333 Dunsmuir St, 18th floor  
Vancouver, BC V6B 5R3

P 604 623 4176  
M 604 230 4696  
E [janet.fraser@bchydro.com](mailto:janet.fraser@bchydro.com)

[bchydro.com](http://bchydro.com)

Smart about power in all we do.

-----Original Message-----

From: James, Fred  
Sent: 2017, October 31 12:03 PM  
To: Fraser, Janet  
Cc: Yaremko, Cheryl  
Subject: RE: Rates freeze letter to BCUC

Here is the latest. I have not attached the draft order. Let me know if you would also like that. This has been reviewed by myself, Ryan and Chris Bystrom.

---

Fred James CPA CA, MBA  
Chief Regulatory Officer

BC Hydro  
333 Dunsmuir Street, 16th Floor  
Vancouver, B.C. V6B 5R3

Office: 604.623.4317  
Mobile: 604.375-1349  
Fax: 604.623.4407  
Email: [Fred.James@bchydro.com](mailto:Fred.James@bchydro.com)

[bchydro.com](http://bchydro.com)

---

-----Original Message-----

From: Fraser, Janet  
Sent: 2017, October 31 11:47 AM  
To: James, Fred  
Cc: Yaremko, Cheryl  
Subject: Rates freeze letter to BCUC

Can you send Cheryl and me the last draft of our submission for the rate freeze

Sent from my iPad

---

This email and its attachments are intended solely for the personal use of the individual or entity named above. Any use of this communication by an unintended recipient is strictly prohibited. If you have received this email in error, any publication, use, reproduction, disclosure or dissemination of its contents is strictly prohibited. Please immediately delete this message and its attachments from your computer and servers. We would also appreciate if you would contact us by a collect call or return email to notify us of this error. Thank you for your cooperation.

-BCHydroDisclaimerID5.2.8.1541

**Fred James**

Chief Regulatory Officer

Phone: 604-623-4046

Fax: 604-623-4407

[bchydroregulatorygroup@bchydro.com](mailto:bchydroregulatorygroup@bchydro.com)

Click here to enter a date.

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. 3698869**  
**British Columbia Utilities Commission (BCUC or Commission)**  
**British Columbia Hydro and Power Authority (BC Hydro)**  
**Fiscal 2017 to F2019 Revenue Requirement Application**

---

BC Hydro writes, pursuant to sections 58-60 of the *Utilities Commission Act*, to amend our requests as they relate to fiscal 2019 as follows:

- (i) change the requested rate increases for fiscal 2019 from 3 per cent to 0 per cent, and
- (ii) request that Open Access Transmission Tariff (OATT) rates for fiscal 2019 remain unchanged from fiscal 2018.

As explained below, our amended requests give effect to the B.C. Government's recent Mandate Letter to BC Hydro (Attachment 1), which contemplates a freeze of rates while a comprehensive review of BC Hydro is conducted, and while a refreshed plan to keep electricity rates low and predictable over the long-term is developed.

**Background**

On July 28, 2016, BC Hydro filed the Fiscal 2017 to Fiscal 2019 Revenue Requirements Application. The Application covered fiscal 2017 (the fiscal year starting April 1, 2016) to fiscal 2019 (the fiscal year starting April 1, 2018). We are currently part-way through fiscal 2018.

Our requested orders, as amended during the course of the proceeding, were summarized in Part Thirteen of our Final Submission. The requests included, among other things:

Click here to enter a date.

Mr. Patrick Wruck

Commission Secretary and Manager

Regulatory Support

British Columbia Utilities Commission

Fiscal 2017 to F2019 Revenue Requirement Application

Page 2 of 3

- final approval to increase rates by an average of 4.0 per cent effective April 1, 2016, 3.5 per cent effective April 1, 2017 and 3.0 per cent effective April 1, 2018, which reflect the rate caps in section 9(1) of Direction No. 7;
- final approval of OATT Rates for fiscal 2017, fiscal 2018 and fiscal 2019, effective April 1, 2016, April 1, 2017 and April 1, 2018, respectively, as set out in Appendix T to the Application;
- approval of total revenue requirements of \$4,679.9 million for fiscal 2017, \$4,912.14 million for fiscal 2018 and \$5,136.1 for fiscal 2019 as set out in Table 1-8, to be recalculated based on the updates, errata and commitments summarized in Part Thirteen of our Final Submission; and
- acceptance pursuant to section 44.2 of the Act of BC Hydro's demand-side management expenditure schedule of \$113.7 million for fiscal 2017, \$104.8 million for fiscal 2018 and \$100.7 million for fiscal 2019 as set out in Table 10-1 of the Application, plus the amounts for the Thermo-Mechanical Pulp project as revised in BC Hydro's response to BCUC IR 2.314.3.

The Commission has approved interim refundable rates for fiscal 2017 and fiscal 2018, pursuant to Order Nos. G-40-16, G-39-17 and G-46-17. It has made no orders with respect to fiscal 2019 to date.

On August 24, 2017, the B.C. Government issued its Mandate Letter to BC Hydro which among other things requests BC Hydro to:

"Freeze BC Hydro Rates and develop a refreshed plan to keep electricity rates low and predictable over the long-term while making significant investments to expand the system and maintain existing infrastructure".

The Mandate Letter also outlines that a comprehensive review of BC Hydro will be undertaken.

### **Revised Requests**

As such, BC Hydro is amending its request made in the Fiscal 2017-Fiscal 2019 Revenue Requirements Application for a 3 per cent rate increase to 0 percent for fiscal 2019 rates. BC Hydro is also amending its request for approval of the fiscal 2019 OATT rates<sup>1</sup> and requests that the OATT rates approved by the Commission for fiscal 2018 apply also for fiscal 2019.

BC Hydro is maintaining its requests made related to the fiscal 2019 demand-side management expenditure schedule as well as the total revenue requirements for fiscal 2019. Consistent with Direction No.7, the portions of the allowed revenue requirement in a particular fiscal year that are not to be recovered in rates in that particular fiscal year

---

<sup>1</sup> Exhibit B-1-2, p. 9-20

Click here to enter a date.  
Mr. Patrick Wruck  
Commission Secretary and Manager  
Regulatory Support  
British Columbia Utilities Commission  
Fiscal 2017 to F2019 Revenue Requirement Application

are to be deferred to the Rate Smoothing Regulatory Account. The amount transferred to the account in fiscal 2019 is expected to change from the \$299.4<sup>2</sup> million included in the Application. The final amount to be transferred will be calculated as part of the compliance filing and will take into account adjustments committed to be made through the Revenue Requirements Application proceeding, any adjustments resulting from the Commission's order on the Application, as well as revenues that were expected to be received in Fiscal 2019 as a result of the 3 per cent rate increase in the Application. The impact of the latter is expected to increase the transfer in fiscal 2019 by approximately \$140 million.

BC Hydro is also maintaining its requested changes to deferral and regulatory accounts and associated financial treatment, as described in Chapter 7, summarized in Table 7-9 of the Application, and clarified in Part Nine E and F of the Final Submission.

The amendment of the fiscal 2019 rate increase from 3 per cent to 0 per cent is aligned with the Mandate Letter from Government. Since the development of the 2013 10 Year Rates Plan, both the Province and BC Hydro have taken action to keep our rates low and in line with the Plan. The Province and BC Hydro are committed to take further actions as required as part of the comprehensive review of BC Hydro that is expected to begin in fiscal 2018 and is likely to be completed in fiscal 2019. s.13

s.13

BC Hydro has appended a restated form of the Final Order to reflect the amended requests as Attachment 2 to this letter.

For further information, please contact Fred James at 604-623-4317 or by email at [bchydroregulatorygroup@bchydro.com](mailto:bchydroregulatorygroup@bchydro.com).

Yours sincerely,

Fred James  
Chief Regulatory Officer

Choose Reg. Action Person (initials) or type/Choose Reg. Compliance & Filings Person (initials) or type

---

<sup>2</sup> Exhibit B-1-1, p. 1-45



**From:** [MacLaren, Les EMPR:EX](#)  
**To:** [Sanderson, Melissa EMPR:EX](#); [McNish, James EMPR:EX](#)  
**Cc:** [De Champlain, Rhonda EMPR:EX](#)  
**Subject:** FW: Rates Item to P and A - Request from MO  
**Date:** October 20, 2017 5:49:00 PM

---

Melissa and James:

Rhonda asked that I send you a short overview note on the Rate Freeze Submission that we will review with the Minister on Oct 25.

On October 5, 2017, PAC reviewed our submission setting out options to fulfill the platform commitment and Minister Mungall's mandate letter direction to freeze BC Hydro's rates. **s.13; s.17 s.13; s.17**

Les

**From:** [Wanamaker, Lori FIN:EX](#)  
**To:** [MacLaren, Les EMPR:EX](#)  
**Subject:** Fw: Regulatory deferral  
**Date:** October 22, 2017 3:27:19 PM  
**Attachments:** [Rate Regulated Paper.docx](#)  
[ATT00001.htm](#)  
[Rate Regulated Impact Statement.docx](#)  
[ATT00002.htm](#)

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OCG backgrounder

Sent from my BlackBerry 10 smartphone on the TELUS network.

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# Rate Regulated Approach

---

## *Introduction:*

Rate regulation is a mechanism that aligns the financial cost of providing a regulated service to the rates charged to the public for that service. It allows companies to recognize up-front or uncontrollable costs over the period of time that the utility regulator deems appropriate to recoup those costs through the rates charged to consumers. Regulating rates is used to ensure price stability for consumers over the long term. A rate regulated entity cannot use its discretion to change its price, but must apply to the regulator for a change and must abide by the regulators ruling, even if unfavourable. Rate regulation is applied to utilities companies to ensure that the rates charged to consumers today reflect only the costs of the service they are provided and not those costs attributable to future ratepayers. For a government-controlled utility company, the company's financial results impact government's bottom line and regulating rates ensures that the taxpayers of today are not paying for the costs that are attributable to future ratepayers.

## *Example of the rate regulated approach*

	Non-regulated approach	Rate Regulated approach
Revenue	6.2	6.2
Expenses	5.5	5.5
Uncontrollable event expenses	<u>1.0</u>	<u>0.1</u> *
Net income (loss)	<u>(0.3)</u>	<u>0.6</u>
Increase to rates to recover costs	0.3	0

\*Regulator approves recovery of uncontrollable costs over a 10 year period

Rate regulation is widely used by both private and publicly owned companies in North America since the 1980s. At the end of 2015, there were approximately 125 entities in Canada whose rates were subject to regulation<sup>1</sup>. Rate regulators act in the interest of the public to ensure stable rates and align the cost of investment with the rates paid in the period the benefit is received by the ratepayer. The rate regulation mechanism helps to avoid market manipulation by removing the utility's discretion to regulate prices. Consistent application of rate regulation promotes an even playing field for investment by ensuring all utility companies are subject to the same considerations of the regulator. A departure from rate regulated recognition of expenses and revenues would necessarily impact the investment decisions of the entity resulting in a potential decrease in efficiency or competitiveness within a broadly rate regulated environment. Moving to an unregulated approach would result in volatility as short term fluctuations impact the entity and flow through to ratepayers. Rate regulation is successful when there is a strong regulatory framework to support the principles or parameters under which the regulator will operate.

---

<sup>1</sup> Accounting Standards Board, Rate-Regulated Activities, September 29, 2016

An alternative to the deferral mechanism is a tariff system, used in parts of Europe, which is based on a flat tax for a utility plus a rate for use. The tariff system results in significant volatility in price and raises concerns about intergenerational equity. The taxpayers of today are taxed to cover the costs that are attributable to future services. The deferral basis is preferable to a tariff regime because it allows the costs to be recognized when the benefits are received. However, either method can have positive or negative impacts based on the policy decisions that inform the regulatory environment.

#### ***Rate Regulated Environment:***

The British Columbia Utilities Commission (BCUC) is the regulator in British Columbia and subject to the direction of government under the *Utilities Commission Act* (s.3). BCUC is responsible for regulating BC's energy utilities, intra-provincial pipelines, compulsory auto insurance rates and the reliability of the electrical transmission grid<sup>2</sup>. As an agency of government, the BCUC adheres to the policy direction<sup>3</sup> received from government in the performance of its regulating activities. The current policy direction to the regulator should be consistent with government's desired outcomes.

British Columbia Hydro and Power Authority (BC Hydro), is a government Crown corporation through the *Hydro and Power Authority Act* and is a rate-regulated entity. BC Hydro is controlled by the government and is included in the government's Summary Financial Statements as a government business enterprise. As a result, the financial results of BC Hydro impact the government's fiscal plan and bottom line. With the approval of BCUC, BC Hydro has established regulatory accounts to match costs and benefits for different generations of customers; to smooth the impact to rates for large, non-recurring costs or for rate increases due to operating cost increases; and to defer the differences between forecast and actual costs or revenues<sup>4</sup>.

The government has a duty to protect the interests of the public in the rate regulated environment. The government appoints the Commissioners of BCUC and can direct through regulation the principles and parameters that they will follow in exercising their duties. The government also controls BC Hydro and can direct through the board of directors the strategic priorities that will achieve their mandate.

#### ***Rate regulated accounting:***

In accordance with the *Budget Transparency and Accountability Act*, BC Hydro prepares their financial statements in accordance with the accounting principles of International Financial Reporting Standards (IFRS), adjusted for regulatory accounting in accordance with Accounting Standards Codification 980 (ASC 980), Regulated Operations. BC Hydro recognizes the decisions of BCUC by establishing either a regulatory asset or regulatory liability on its Statement of Financial Position. Under the deferral method, the financial statements faithfully represent the cost to the period of benefit to the ratepayers. BC Hydro also provides additional disclosure on each of its regulatory accounts in the notes to the financial statements to provide users with the necessary information to understand the reason for the account and the impacts to the current period.

---

<sup>2</sup> [www.bcuc.com/about/who-we-are.html](http://www.bcuc.com/about/who-we-are.html)

<sup>3</sup> For example, recent direction includes directives 6 and 7 (March 2014).

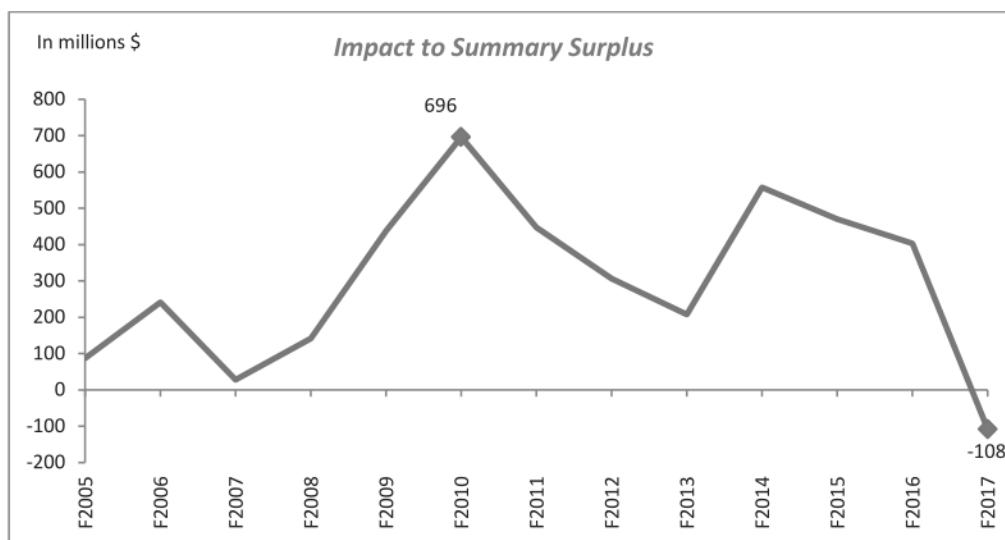
<sup>4</sup> BC Hydro, F2015 to F2016 Revenue Requirements Rate Application, Appendix H, February 28, 2014

*BC Hydro Financial Results, as at March 31<sup>5</sup>*

<i>In millions \$</i>	2017	2016
Total Assets	31,888	30,034
Total Liabilities	26,979	25,534
Total Equity	4,909	4,500
Total Revenue	5,874	5,657
Total Expenses	5,190	5,002
Net Income	684	655

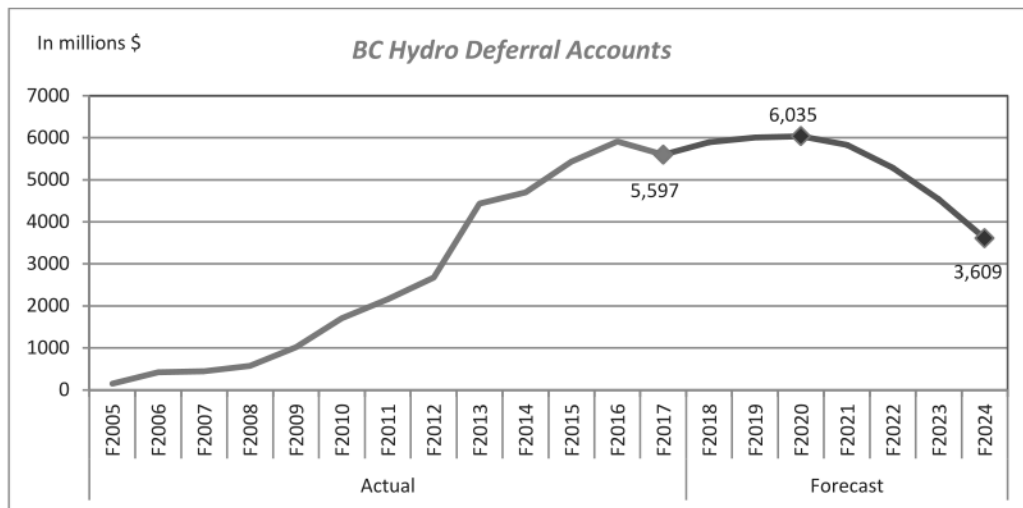
The alternative to regulatory accounts is to recognize the financial impacts immediately into current year net income which would not align with the long term recovery of revenue from ratepayers. This means the ratepayers who receive the benefit of the service are not the ratepayers that will pay the cost. This impact to BC Hydro's net income consolidates directly to the governments' Summary Surplus therefore transferring the cost to the taxpayers of today.

Rate regulated accounting has been the subject of public comment and debate for many years. There have been a number of reports including three prepared by the Auditor General of BC in October 2011, March 2012 and June 2014. Each report discusses the merits of rate regulated accounting and the applicability of this mechanism to BC Hydro's operations. The latest report and BC Hydro's annual audit opinion confirms that it is preparing its financial statements in accordance with Canadian generally accepted accounting principles.



<sup>5</sup> British Columbia Hydro and Power Authority, Audited Financial Statements for the year ending March 31, 2017

As at March 31, 2017, BC Hydro reported a total of \$5.6 billion in net regulatory assets attributable to future revenue streams and is forecast to grow to \$6.0 billion by March 31, 2020<sup>6</sup>. The deferrals have continued to rise and the current balances are expected to reduce over time.



s.13; s.17

<sup>6</sup> BC Hydro Fiscal 2017 to Fiscal 2019 Revenue Requirements Application

Page 080 of 225 to/à Page 082 of 225

Withheld pursuant to/removed as

s.13; s.17

**From:** [Grewar, Colin GCPE:EX](#)  
**To:** [De Champlain, Rhonda EMPR:EX](#); [Haslam, David GCPE:EX](#); [MacLaren, Les EMPR:EX](#)  
**Cc:** [Wieringa, Paul EMPR:EX](#); [Beaupre, Darren GCPE:EX](#)  
**Subject:** RE: Com Plan\_Rate Freeze\_Oct25  
**Date:** October 26, 2017 11:13:17 AM  
**Attachments:** [Com Plan\\_Rate Freeze\\_Oct25 LM.docx](#)  
[image001.jpg](#)

---

Final version attached, as adjusted by Les to reflect recommended option and updated timeframe.

Colin



Colin Grewar  
Public Affairs Officer  
Government Communications and Public Engagement  
Ministry of Energy, Mines and Petroleum Resources  
**Phone:** 250-952-0650  
[Colin.Grewar@gov.bc.ca](mailto:Colin.Grewar@gov.bc.ca)

---

**From:** De Champlain, Rhonda EMPR:EX  
**Sent:** Thursday, October 26, 2017 11:05 AM  
**To:** Haslam, David GCPE:EX; MacLaren, Les EMPR:EX  
**Cc:** Wieringa, Paul EMPR:EX; Beaupre, Darren GCPE:EX; Grewar, Colin GCPE:EX  
**Subject:** RE: Com Plan\_Rate Freeze\_Oct25

Hello,

Is there a final version I can submit to Cabinet Operations this morning?

Thank you.

Rhonda

---

**From:** Haslam, David GCPE:EX  
**Sent:** Thursday, October 26, 2017 7:43 AM  
**To:** MacLaren, Les EMPR:EX  
**Cc:** Wieringa, Paul EMPR:EX; De Champlain, Rhonda EMPR:EX; Beaupre, Darren GCPE:EX; Grewar, Colin GCPE:EX  
**Subject:** Re: Com Plan\_Rate Freeze\_Oct25

Noted.

Sent from my iPhone

On Oct 26, 2017, at 6:42 AM, MacLaren, Les EMPR:EX <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)> wrote:

Here is a version with "Recommended" for Option 1 added.

Les

---

**From:** Haslam, David GCPE:EX  
**Sent:** Wednesday, October 25, 2017 6:45 PM  
**To:** MacLaren, Les EMPR:EX  
**Cc:** Wieringa, Paul EMPR:EX; De Champlain, Rhonda EMPR:EX; Beaupre, Darren GCPE:EX; Grewar, Colin GCPE:EX  
**Subject:** Re: Com Plan\_Rate Freeze\_Oct25

Yes.

Sent from my iPhone

On Oct 25, 2017, at 4:26 PM, MacLaren, Les EMPR:EX <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)>



wrote:

Are we ok to submit this with the Submission? If so can we put  
"Recommended" beside the NR option??  
Les

On Oct 25, 2017, at 1:57 PM, Haslam, David GCPE:EX  
<[David.Haslam@gov.bc.ca](mailto:David.Haslam@gov.bc.ca)> wrote:

Thx Les. Agree with your thinking. Will push that approach.  
Hopefully others agree. Including Darren and Colin.

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Wednesday, October 25, 2017 1:52 PM  
**To:** Haslam, David GCPE:EX  
**Cc:** Wieringa, Paul EMPR:EX; De Champlain, Rhonda EMPR:EX  
**Subject:** Com Plan\_Rate Freeze\_Oct25

Hi David:

We are going back to PAC next week on the rate freeze. **s.13; s.17**  
**s.13; s.17**

**s.13; s.17** I have tweaked the  
dates in the comm. plan we used last time.  
**s.13; s.17**

Les

Page 085 of 225 to/à Page 089 of 225

Withheld pursuant to/removed as

s.13; s.17

**From:** [MacLaren, Les EMPR:EX](#)  
**To:** [Foster, Doug FIN:EX](#)  
**Cc:** [Gonzalez, Selina FIN:EX](#); [Fischer, Carl M FIN:EX](#); ["Yaremko, Cheryl"](#); ["Layton, Ryan"](#); [Liang, Diane FIN:EX](#); [Wieringa, Paul EMPR:EX](#)  
**Subject:** RE: CS - BC Hydro Rate Freeze  
**Date:** October 24, 2017 8:37:00 PM  
**Attachments:** [CS - BC Hydro Rate Freeze 24-10-17v2 clean.docx](#)

---

Attached is a revised clean version including Doug's comments and some further formatting and clarification changes. I will send this to my Minister for approval tomorrow.

Les

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Tuesday, October 24, 2017 4:20 PM  
**To:** Foster, Doug FIN:EX  
**Cc:** Gonzalez, Selina FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Liang, Diane FIN:EX  
**Subject:** RE: CS - BC Hydro Rate Freeze  
I will turn a new clean version this evening.  
s.13; s.17

s.13; s.17                      We have some further time with her tomorrow.

Les

---

**From:** Foster, Doug FIN:EX  
**Sent:** Tuesday, October 24, 2017 4:04 PM  
**To:** MacLaren, Les EMPR:EX  
**Cc:** Gonzalez, Selina FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Liang, Diane FIN:EX  
**Subject:** FW: CS - BC Hydro Rate Freeze  
I have placed my comments on top of your red line changes.  
d.

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Tuesday, October 24, 2017 11:21 AM  
**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX; Liang, Diane FIN:EX  
**Cc:** Wieringa, Paul EMPR:EX  
**Subject:** RE: CS - BC Hydro Rate Freeze  
Attached is the next turn, with additional tracked changes against the submission that went to PAC October 5. s.13; s.17  
s.13; s.17

I will use this version to brief my Minister this afternoon. If you have edits please let me know. This needs to be signed and submitted tomorrow.

Les

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Monday, October 23, 2017 5:34 PM  
**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX  
**Subject:** CS - BC Hydro Rate Freeze 23-10-17  
The attached is tracked against the prior submission that went forward at the beginning of the month. s.13; s.17

**s.13; s.17**

Comments welcome.

Les

and I am sure you will have corrections.

Page 092 of 225 to/à Page 100 of 225

Withheld pursuant to/removed as

s.13; s.17

Page 101 of 225

Withheld pursuant to/removed as

s.17; s.13

Page 102 of 225 to/à Page 104 of 225

Withheld pursuant to/removed as

s.13; s.17

**From:** [Lianga, Diane FIN:EX](#)  
**To:** [Foster, Doug FIN:EX](#); [MacLaren, Les EMPR:EX](#)  
**Cc:** [Gonzalez, Selina FIN:EX](#); [Fischer, Carl M FIN:EX](#); ["Yaremko, Cheryl"](#); ["Layton, Ryan"](#)  
**Subject:** RE: CS - BC Hydro Rate Freeze  
**Date:** October 24, 2017 4:49:59 PM

---

s.13; s.17

Thanks  
Diane

---

**From:** Foster, Doug FIN:EX  
**Sent:** Tuesday, October 24, 2017 4:04 PM  
**To:** MacLaren, Les EMPR:EX  
**Cc:** Gonzalez, Selina FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Lianga, Diane FIN:EX  
**Subject:** FW: CS - BC Hydro Rate Freeze  
I have placed my comments on top of your red line changes.  
d.

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**From:** MacLaren, Les EMPR:EX  
**Sent:** Tuesday, October 24, 2017 11:21 AM  
**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX; Lianga, Diane FIN:EX  
**Cc:** Wieringa, Paul EMPR:EX  
**Subject:** RE: CS - BC Hydro Rate Freeze  
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October 5. s.13; s.17  
s.13; s.17

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Les

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Monday, October 23, 2017 5:34 PM  
**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX  
**Subject:** CS - BC Hydro Rate Freeze 23-10-17  
The attached is tracked against the prior submission that went forward at the beginning of the month. s.13; s.17  
s.13; s.17 and I am sure you will have corrections.  
Comments welcome.  
Les



**From:** [MacLaren, Les EMPR:EX](#)  
**To:** [Foster, Doug FIN:EX](#); [Fischer, Carl M FIN:EX](#); ["Yaremko, Cheryl"](#); ["Layton, Ryan"](#); [Gonzalez, Selina FIN:EX](#); [Liang, Diane FIN:EX](#)  
**Cc:** [Wieringa, Paul EMPR:EX](#)  
**Subject:** RE: CS - BC Hydro Rate Freeze  
**Date:** October 24, 2017 11:20:00 AM  
**Attachments:** [CS - BC Hydro Rate Freeze 24-10-17.docx](#)  
[Regulatory Accounts 24-10-17.docx](#)

---

Attached is the next turn, with additional tracked changes against the submission that went to PAC October 5. **s.13; s.17**  
**s.13; s.17**

I will use this version to brief my Minister this afternoon. If you have edits please let me know. This needs to be signed and submitted tomorrow.

Les

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Monday, October 23, 2017 5:34 PM  
**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX  
**Subject:** CS - BC Hydro Rate Freeze 23-10-17

The attached is tracked against the prior submission that went forward at the beginning of the month. I have tried to set out the options related to regulatory accounts in a straightforward manner, but it is likely still too complex, and I am sure you will have corrections.

Comments welcome.

Les

Page 107 of 225

Withheld pursuant to/removed as

s.17; s.13

Page 108 of 225 to/à Page 118 of 225

Withheld pursuant to/removed as

s.13; s.17

## Appendix 1 – BC Hydro Regulatory Accounts

s.13; s.17

## Appendix 1 – BC Hydro Regulatory Accounts

s.13; s.17

**From:** [Foster, Doug FIN:EX](#)  
**To:** ["Yaremko, Cheryl"; MacLaren, Les EMPR:EX](#)  
**Cc:** [Gonzalez, Selina FIN:EX](#); [Fischer, Carl M FIN:EX](#); [Layton, Ryan](#); [Lianga, Diane FIN:EX](#); [Wieringa, Paul EMPR:EX](#)  
**Subject:** RE: CS - BC Hydro Rate Freeze  
**Date:** October 25, 2017 8:27:29 AM  
**Attachments:** [CS - BC Hydro Rate Freeze 24-10-17v2 clean.docx](#)

---

I have placed further comments on top of Cheryl's.

In this version, I have attempted to simply, clarify and address some of Cheryl's comments plus other concerns I have had.

Hope this is helpful.

d.

---

**From:** Yaremko, Cheryl [<mailto:Cheryl.Yaremko@bchydro.com>]  
**Sent:** Tuesday, October 24, 2017 9:10 PM  
**To:** MacLaren, Les EMPR:EX; Foster, Doug FIN:EX  
**Cc:** Gonzalez, Selina FIN:EX; Fischer, Carl M FIN:EX; Layton, Ryan; Lianga, Diane FIN:EX; Wieringa, Paul EMPR:EX  
**Subject:** RE: CS - BC Hydro Rate Freeze

Hi Les,

Here are a few additional edits from me. Sorry for the delay.

Cheryl

---

**From:** MacLaren, Les EMPR:EX [<mailto:Les.MacLaren@gov.bc.ca>]  
**Sent:** 2017, October 24 8:38 PM  
**To:** Foster, Doug FIN:EX  
**Cc:** Gonzalez, Selina FIN:EX; Fischer, Carl M FIN:EX; Yaremko, Cheryl; Layton, Ryan; Lianga, Diane FIN:EX; Wieringa, Paul EMPR:EX  
**Subject:** RE: CS - BC Hydro Rate Freeze

Attached is a revised clean version including Doug's comments and some further formatting and clarification changes. I will send this to my Minister for approval tomorrow.

Les

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Tuesday, October 24, 2017 4:20 PM  
**To:** Foster, Doug FIN:EX  
**Cc:** Gonzalez, Selina FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Lianga, Diane FIN:EX  
**Subject:** RE: CS - BC Hydro Rate Freeze

I will turn a new clean version this evening.

s.13; s.17

s.13; s.17                      We have some further time with her tomorrow.

Les

---

**From:** Foster, Doug FIN:EX  
**Sent:** Tuesday, October 24, 2017 4:04 PM  
**To:** MacLaren, Les EMPR:EX  
**Cc:** Gonzalez, Selina FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Lianga, Diane FIN:EX  
**Subject:** FW: CS - BC Hydro Rate Freeze

I have placed my comments on top of your red line changes.

d.

---

**From:** MacLaren, Les EMPR:EX  
**Sent:** Tuesday, October 24, 2017 11:21 AM

**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX; Lianga, Diane FIN:EX

**Cc:** Wieringa, Paul EMPR:EX

**Subject:** RE: CS - BC Hydro Rate Freeze

Attached is the next turn, with additional tracked changes against the submission that went to PAC

October 5. s.13; s.17

s.13; s.17

I will use this version to brief my Minister this afternoon. If you have edits please let me know. This needs to be signed and submitted tomorrow.

Les

---

**From:** MacLaren, Les EMPR:EX

**Sent:** Monday, October 23, 2017 5:34 PM

**To:** Foster, Doug FIN:EX; Fischer, Carl M FIN:EX; 'Yaremko, Cheryl'; 'Layton, Ryan'; Gonzalez, Selina FIN:EX

**Subject:** CS - BC Hydro Rate Freeze 23-10-17

The attached is tracked against the prior submission that went forward at the beginning of the month. s.13; s.17

s.13; s.17

and I am sure you will have corrections.

Comments welcome.

Les

---

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Page 123 of 225 to/à Page 137 of 225

Withheld pursuant to/removed as

s.13; s.17



**From:** [MacLaren, Les EMPR:EX](#)  
**To:** [MacMillan, Elizabeth PREM:EX](#); [Wanamaker, Lori FIN:EX](#)  
**Cc:** [Massy, Michelle E PREM:EX](#); [Galbraith, David J FIN:EX](#); [Finkel, Paul PREM:EX](#); [Piccinino, Ines MNGD:EX](#)  
**Subject:** RE: deferral acct & rate freeze - no draft? to PA Nov 2  
**Date:** October 22, 2017 10:47:00 AM

---

s.13; s.17

Les

---

**From:** MacMillan, Elizabeth PREM:EX  
**Sent:** Sunday, October 22, 2017 7:46 AM  
**To:** Wanamaker, Lori FIN:EX  
**Cc:** Nikolejsin, Dave MNGD:EX; MacLaren, Les EMPR:EX; Massy, Michelle E PREM:EX; Galbraith, David J FIN:EX; Finkel, Paul PREM:EX  
**Subject:** Re: deferral acct & rate freeze - no draft? to PA Nov 2  
Thank-you Lori  
Agendas is at 9:30

On Oct 22, 2017, at 7:39 AM, Wanamaker, Lori FIN:EX <[Lori.Wanamaker@gov.bc.ca](mailto:Lori.Wanamaker@gov.bc.ca)> wrote:

Good morning. I am reviewing draft materials today and can let you know tomorrow morning if they are ready to submit.

Lori

---

**From:** MacMillan, Elizabeth PREM:EX

**Sent:** Saturday, October 21, 2017 5:37 PM

**To:** Wanamaker, Lori FIN:EX; Nikolejsin, Dave MNGD:EX

**Cc:** MacLaren, Les EMPR:EX; Massy, Michelle E PREM:EX

**Subject:** deferral acct & rate freeze - no draft? to PA Nov 2

Hello Lori and Dave – please we're being advised that no draft materials will be submitted. That the intention is to submit finals on Oct 25.

Please can you confirm Don is ok w/this approach?

Thx

E

**From:** [Layton, Ryan](#)  
**To:** [MacLaren, Les](#) EMPR:EX; [Foster, Doug](#) FIN:EX  
**Cc:** [Yaremko, Cheryl](#)  
**Subject:** RE: DRAFT and CONFIDENTIAL - initial rates modelling of write-off scenario  
**Date:** October 24, 2017 5:54:52 PM  
**Attachments:** [Writeoff scenarios \(from F18Q1 Forecast\).pdf](#)

---

Hi Les and Doug:

Further to our note last night, and conversations/requests today, please find attached the DRAFT and CONFIDENTIAL preliminary results of modelling performed today.

The 3 sheets in the attached show the following:

1. Scenario from yesterday – write off all regulatory accounts, and F19 rate freeze (achieved by adjustment to net income)
2. Based on #1, but with annual rate increases of 2% in all years after F19 (with net income being the variable)
3. Write off Rate Smoothing Regulatory Account, and F19 rate freeze (achieved by adjustment to net income)

I think through the various discussions throughout the day that we've discussed the questions in the earlier emails, but please let us know if any remain, or if you have questions on the attached.

Thanks

Ryan

---

**From:** Layton, Ryan  
**Sent:** 2017, October 23 6:05 PM  
**To:** Les.MacLaren@gov.bc.ca; Doug Foster (Doug.Foster@gov.bc.ca)  
**Cc:** Yaremko, Cheryl  
**Subject:** DRAFT and CONFIDENTIAL - initial rates modelling of write-off scenario

Hi Les and Doug:

Further to our call early this afternoon, please find attached the DRAFT and CONFIDENTIAL preliminary results of modelling we have performed today.

We prepared this quickly this afternoon and while we have done initial reviews (including with Cheryl), we are still looking the results, thinking about other implications, etc. We've included some notes that came to mind looking at the results.

Please let us know if you have any questions on the attached.

Thanks

Ryan

---

**Ryan Layton CPA, CA** | Director of Finance – Planning, Forecasting & Risk

**BC Hydro**

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**P** 604 623 3865

**M** 604 897 5427

**E** [ryan.layton@bchydro.com](mailto:ryan.layton@bchydro.com)

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Withheld pursuant to/removed as

s.13; s.17

**From:** [Layton, Ryan](#)  
**To:** [Foster, Doug FIN:EX](#); [MacLaren, Les EMPR:EX](#)  
**Cc:** [Yaremko, Cheryl](#)  
**Subject:** RE: DRAFT and CONFIDENTIAL - initial rates modelling of write-off scenario  
**Date:** October 25, 2017 5:35:09 PM  
**Attachments:** [Writeoff scenarios \(from F18Q1 Forecast\) Oct 25 2017.pdf](#)

---

Hello Doug:

Please see attached, which contains the information from last night, plus a new page for the other scenario you requested (specifically, same scenario as tab 3, but fix post-F19 rate increases to 1.5% by letting net income be the variable.

Also on the new page, we've reconciled the difference between the debt in the scenario vs. the 'base case' (i.e., F18Q1 Forecast). It shows that the difference in the debt is caused by two things – the difference in the net regulatory transfers between the scenario and the base case, and the difference in net income between the scenario and the base case.

To your questions below, our thinking is the same as yours on page 1 in terms of the result. More specifically, in that scenario, if \$712M is held constant beyond even F2024, then we think that the debt will be recovered because of all the net income collected while on the longer path to 60:40 debt:equity. In the situations where there are two variables – net income and rate increases – it depends on what happens outside F2024. It's possible it would be recovered there, too, depending on the assumptions. **s.13; s.17**

**s.13; s.17**

We hope this is helpful – please let us know if you have any additional questions.

Thanks

Ryan

---

**From:** Foster, Doug FIN:EX [<mailto:Doug.Foster@gov.bc.ca>]  
**Sent:** 2017, October 24 6:31 PM  
**To:** Layton, Ryan  
**Subject:** RE: DRAFT and CONFIDENTIAL - initial rates modelling of write-off scenario  
thanks ryan.

few questions:

- **s.13; s.17**

- I'm assuming that all the higher surplus (or cash behind it) is going to debt reduction and no other changes being made (e.g. changes in capital etc). correct?

- **s.13; s.17**

d.

---

**From:** Layton, Ryan [<mailto:ryan.layton@bchydro.com>]  
**Sent:** Tuesday, October 24, 2017 5:55 PM  
**To:** MacLaren, Les EMPR:EX; Foster, Doug FIN:EX  
**Cc:** Yaremko, Cheryl  
**Subject:** RE: DRAFT and CONFIDENTIAL - initial rates modelling of write-off scenario

Hi Les and Doug:

Further to our note last night, and conversations/requests today, please find attached the DRAFT and CONFIDENTIAL preliminary results of modelling performed today.

The 3 sheets in the attached show the following:

1. Scenario from yesterday – write off all regulatory accounts, and F19 rate freeze (achieved by adjustment to net income)
2. Based on #1, but with annual rate increases of 2% in all years after F19 (with net income being the variable)
3. Write off Rate Smoothing Regulatory Account, and F19 rate freeze (achieved by adjustment to net income)

I think through the various discussions throughout the day that we've discussed the questions in the earlier emails, but please let us know if any remain, or if you have questions on the attached.

Thanks

Ryan

---

**From:** Layton, Ryan  
**Sent:** 2017, October 23 6:05 PM  
**To:** [Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca); Doug Foster ([Doug.Foster@gov.bc.ca](mailto:Doug.Foster@gov.bc.ca))  
**Cc:** Yaremko, Cheryl  
**Subject:** DRAFT and CONFIDENTIAL - initial rates modelling of write-off scenario

Hi Les and Doug:

Further to our call early this afternoon, please find attached the DRAFT and CONFIDENTIAL preliminary results of modelling we have performed today.

We prepared this quickly this afternoon and while we have done initial reviews (including with Cheryl), we are still looking the results, thinking about other implications, etc. We've included some notes that came to mind looking at the results.

Please let us know if you have any questions on the attached.

Thanks

Ryan

---

**Ryan Layton CPA, CA** | Director of Finance – Planning, Forecasting & Risk  
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Page 148 of 225 to/à Page 150 of 225

Withheld pursuant to/removed as

s.13; s.17

Page 151 of 225

Withheld pursuant to/removed as

s.17; s.13

**From:** [Layton, Ryan](#)  
**To:** [MacLaren, Les](#) EMPR:EX  
**Cc:** [Yaremko, Cheryl](#)  
**Subject:** Re: Follow up  
**Date:** October 18, 2017 8:13:24 PM

---

Hi Les:

Thanks for our discussion earlier this morning regarding the email chain below. We have done some initial modelling, including the following assumptions:

- Write-off of the forecast Rate Smoothing Regulatory Account balance at the end of Fiscal 2018 (\$766 million). As this account was forecast to have additions in Fiscal 2019, writing off the balance at the end of fiscal 2018 doesn't assist with Fiscal 2019 rates, but does help in the later years of the 10 Year Rates Plan as this amount does not need to be recovered from ratepayers.
- We considered write offs of other regulatory accounts (e.g., first nations, SMI) but they have very little impact on Fiscal 2019 since the 'savings' are just the amounts that would have been recovered in Fiscal 2019, which are small as the accounts are being recovered over longer time periods.
- We haven't gone through all of the logistics around a write-off, though we preliminarily think the writeoff may be able to be achieved without a direction to BCUC (i.e., a direction to BC Hydro may suffice since the impact is not to ratepayers). In any case, the writeoff would impact our F2018 net income by the full \$766 million and therefore would impact the *Fiscal Plan* for 2017/18 in the same amount. Our equity would be reduced, but this wouldn't impact future years' net income, or dividends in the near-mid term as both are set by direction. It would reduce our debt:equity ratio and would result in a later resumption of dividends since it would take longer to achieve our target debt:equity ratio of 60:40, though this wasn't expected to be achieved until the 2030s.

As we have mentioned before, the rate freeze results in approximately \$140 million lower domestic tariff revenue (plus approximately \$7 million lower deferral account rate rider revenue. In addition, we were forecasting to add approximately \$288 million to the Rate Smoothing Regulatory Account in Fiscal 2019.**s.13; s.17**

**s.13; s.17**

Note that the figures above are all estimates that change each time we prepare a new quarterly financial forecast update.

We are doing further work on the impact of a writeoff of the Rate Smoothing Regulatory Account forecast balance of \$766 million at the end of Fiscal 2018 in terms of the impact it would have on rates for future years, but we know you were interested in the Fiscal 2019 situation and hence wanted to provide you with this information now.

Please let us know if you have any questions. We'd suggest that a follow up call tomorrow would be useful – please let us know and we can set something up.

Thanks

Ryan

---

**Ryan Layton CPA, CA** | Director of Finance – Planning, Forecasting & Risk

**BC Hydro**

333 Dunsmuir St, 17th floor

Vancouver, BC V6B 5R3

**P** 604 623 3865

**M** 604 897 5427

**E** [ryan.layton@bchydro.com](mailto:ryan.layton@bchydro.com)

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Begin forwarded message:

**From:** "MacLaren, Les MEM:EX" <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)>

**Date:** October 11, 2017 at 4:17:22 PM PDT

**To:** "Yaremko, Cheryl" <[Cheryl.Yaremko@bchydro.com](mailto:Cheryl.Yaremko@bchydro.com)>

**Subject:** RE: Follow up

Thanks Cheryl. This is helpful and yes we are interested in understanding the rate impacts and how they might be different depending on which accounts you chose to write off.

It might be easier if we had another slide to walk elected officials through the mechanics of how a write off would occur and the impacts to your and our financial statements. Assume there would have to be some sort of direction from government to your Board (and BCUC?), then the impact on regulatory assets and corresponding write down of equity flowing to your income statement and then the fiscal plan. Suggesting doing a hypothetical \$1B write down based on current F18 forecast net income.

Les

**From:** Yaremko, Cheryl [<mailto:Cheryl.Yaremko@bchydro.com>]

**Sent:** Wednesday, October 11, 2017 4:00 PM

**To:** MacLaren, Les MEM:EX

**Subject:** RE: Follow up

And here's the attachment.

**From:** Yaremko, Cheryl

**Sent:** 2017, October 11 3:59 PM

**To:** Les MacLaren ([Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca))

**Subject:** Follow up

Hi Les,

Attached are a few slides we had that cover how a regulatory account write-off would work. It is pretty high level, but covers the main considerations. It happened to include the impact a \$1B write-off would have on the debt to equity ratio. The thing it doesn't note explicitly is that the hit to our net income flows through to be a hit to the fiscal plan.

The second slide I've attached includes a couple of suggestions on which regulatory accounts you might pick if you were going to pick some to write-off. As I mentioned, we tried to think of ones that the BCUC might not have approved without direction, which was the rate smoothing and the First Nations Settlements. They roughly total \$1B, although rate smoothing will increase to \$770m by the end of F18 from the \$569m in July on the slide. **s.13; s.17**

**s.13; s.17**

We had not yet run the rate impact of doing this write-off, but I'm assuming you'll want that, so we've started to work on it. The rate smoothing write-off impact will have a significant impact on rate increases as the recovery of the account was to occur by F2024. The FN one might not be as significant as it had a longer amortization period. **s.13; s.17**

**s.13; s.17**

The third slide I attached is just for you in case it is useful - it summarizes our journey towards getting to a "normal utility" financial structure, and that govt could more there move quickly if that was of interest to them, although it would come with a fiscal plan hit.

Let me know if you want us to pull something more fulsome together.

Cheryl

---

**Cheryl Yaremko** | EVP Finance & Business Services and CFO

**BC Hydro**

333 Dunsmuir St, 18th floor

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P 604 623 4110

E [cheryl.yaremko@bchydro.com](mailto:cheryl.yaremko@bchydro.com)

[bchydro.com](http://bchydro.com)

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---

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**From:** [Layton, Ryan](#)  
**To:** [MacLaren, Les EMPR:EX](#); [Wieringa, Paul EMPR:EX](#)  
**Cc:** [Yaremko, Cheryl](#)  
**Subject:** RE: Follow up  
**Date:** October 19, 2017 12:09:31 PM  
**Attachments:** [Reg Account Balances F18Q1 Revised Service Plan Forecast.pdf](#)

---

Hi all:

Please see attached for use at this afternoon's discussion.

The table shows each of our regulatory accounts in use or with a balance as at the time of our F18 Q1 Financial Forecast (i.e., the forecast underlying the September 2017 Service Plan). For each account, two amounts are shown:

1. The forecast balance at the end of Fiscal 2018. This column shows the writeoff amount that would be estimated were the account to be written off at the end of Fiscal 2018. Those accounts with balances shown in parentheses, such as Total Finance Charges (\$150) means that the balance at the end of F2018 is forecast to be a credit (i.e., an amount to be refunded to ratepayers) and thus for which writeoffs are not applicable; and
2. The forecast amortization in Fiscal 2019. This column shows the savings, in the form of amortization that will not occur in Fiscal 2019, if the account balance is written off in Fiscal 2018. There are complications here regarding the Cost of Energy Variance Accounts (as these are collected in rates via the Deferral Account Rate Rider) that we can discuss on our call. Those accounts with balances in parentheses are those for which savings would apply in Fiscal 2019 if their balance was written off in Fiscal 2018. For example, Smart Metering & Infrastructure Program (\$31) means that there is forecast to be \$31 million in amortization expense in Fiscal 2019. Conversely, Total Finance Charges \$102, as a result of the credit balance mentioned above is a 'refund' to customers of \$102 million in Fiscal 2019.

In case you are wondering, the Mining Customer Payment Plan Regulatory Account does not appear in the list as it is neither in use nor with a balance. It would only become in use and with a balance if an amount owing by a participating customer were deemed to be impaired, per the terms and conditions of the program. Unless that occurs, the amounts owing are long-term receivables and do not involve a regulatory account. All other accounts are shown on the list.

Ryan

---

**From:** Yaremko, Cheryl  
**Sent:** 2017, October 19 11:36 AM  
**To:** Layton, Ryan  
**Cc:** MacLaren, Les EMPR:EX; Wieringa, Paul EMPR:EX  
**Subject:** Re: Follow up  
We will set up a call at 3:30.

On Oct 19, 2017, at 11:16 AM, Layton, Ryan <[ryan.layton@bchydro.com](mailto:ryan.layton@bchydro.com)> wrote:

Hi Les:

We think it would be most productive to be able to talk through this. Cheryl was trying to connect to see if you had some time today.

Please let us know if you're able to discuss further and we'll set something up.

Thanks

Ryan

---

**From:** Layton, Ryan  
**Sent:** 2017, October 19 9:19 AM  
**To:** 'MacLaren, Les EMPR:EX'  
**Cc:** Yaremko, Cheryl; Wieringa, Paul EMPR:EX  
**Subject:** RE: Re: Follow up

Hi Les (and Paul)

We'll get you some additional information on this, as requested. The writeoff required to achieve this goal would be very large under most options (i.e., in order to get enough in reduced amortization savings, multiple accounts will need to be included). We'll put together some information and get it back to you soon.  
Thanks

Ryan

---

**From:** MacLaren, Les EMPR:EX [<mailto:Les.MacLaren@gov.bc.ca>]  
**Sent:** 2017, October 19 6:52 AM  
**To:** Layton, Ryan  
**Cc:** Yaremko, Cheryl; Wieringa, Paul EMPR:EX  
**Subject:** RE: Re: Follow up

Thanks Ryan

Is there a configuration of regulatory account write offs that would offset the 3% increase scheduled for April 1, 2018? Government is looking at this as a rate freeze commitment option, so we need to have an option in that context. If it is more than \$1B, then we need to understand the implications of that. We are getting jammed to meet the Cabinet schedule, so will need something today to incorporate into our submission.

Les

---

**From:** Layton, Ryan [<mailto:ryan.layton@bchydro.com>]  
**Sent:** Wednesday, October 18, 2017 8:13 PM  
**To:** MacLaren, Les EMPR:EX  
**Cc:** Yaremko, Cheryl  
**Subject:** Re: Follow up

Hi Les:

Thanks for our discussion earlier this morning regarding the email chain below. We have done some initial modelling, including the following assumptions:

- Write-off of the forecast Rate Smoothing Regulatory Account balance at the end of Fiscal 2018 (\$766 million). As this account was forecast to have additions in Fiscal 2019, writing off the balance at the end of fiscal 2018 doesn't assist with Fiscal 2019 rates, but does help in the later years of the 10 Year Rates Plan as this amount does not need to be recovered from ratepayers.
- We considered write offs of other regulatory accounts (e.g., first nations, SMI) but they have very little impact on Fiscal 2019 since the 'savings' are just the amounts that would have been recovered in Fiscal 2019, which are small as the accounts are being recovered over longer time



periods.

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As we have mentioned before, the rate freeze results in approximately \$140 million lower domestic tariff revenue (plus approximately \$7 million lower deferral account rate rider revenue. In addition, we were forecasting to add approximately \$288 million to the Rate Smoothing Regulatory Account in Fiscal 2019.**s.13; s.17**

**s.13; s.17**

Note that the figures above are all estimates that change each time we prepare a new quarterly financial forecast update.

We are doing further work on the impact of a writeoff of the Rate Smoothing Regulatory Account forecast balance of \$766 million at the end of Fiscal 2018 in terms of the impact it would have on rates for future years, but we know you were interested in the Fiscal 2019 situation and hence wanted to provide you with this information now.

Please let us know if you have any questions. We'd suggest that a follow up call tomorrow would be useful – please let us know and we can set something up.

Thanks

Ryan

---

**Ryan Layton CPA, CA** | Director of Finance – Planning, Forecasting & Risk

**BC Hydro**

333 Dunsmuir St, 17th floor

Vancouver, BC V6B 5R3

**P** 604 623 3865

**M** 604 897 5427

**E** [ryan.layton@bchydro.com](mailto:ryan.layton@bchydro.com)

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Begin forwarded message:

**From:** "MacLaren, Les MEM:EX" <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)>

**Date:** October 11, 2017 at 4:17:22 PM PDT

**To:** "Yaremko, Cheryl" <[Cheryl.Yaremko@bchydro.com](mailto:Cheryl.Yaremko@bchydro.com)>

**Subject: RE: Follow up**

Thanks Cheryl. This is helpful and yes we are interested in understanding the rate impacts and how they might be different depending on which accounts you chose to write off.

It might be easier if we had another slide to walk elected officials through the mechanics of how a write off would occur and the impacts to your and our financial statements. Assume there would have to be some sort of direction from government to your Board (and BCUC?), then the impact on regulatory assets and corresponding write down of equity flowing to your income statement and then the fiscal plan.

Suggesting doing a hypothetical \$1B write down based on current F18 forecast net income.

Les

**From:** Yaremko, Cheryl [<mailto:Cheryl.Yaremko@bchydro.com>]

**Sent:** Wednesday, October 11, 2017 4:00 PM

**To:** MacLaren, Les MEM:EX

**Subject:** RE: Follow up

And here's the attachment.

**From:** Yaremko, Cheryl

**Sent:** 2017, October 11 3:59 PM

**To:** Les MacLaren ([Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca))

**Subject:** Follow up

Hi Les,

Attached are a few slides we had that cover how a regulatory account write-off would work. It is pretty high level, but covers the main considerations. It happened to include the impact a \$1B write-off would have on the debt to equity ratio. The thing it doesn't note explicitly is that the hit to our net income flows through to be a hit to the fiscal plan.

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**s.13; s.17**

We had not yet run the rate impact of doing this write-off, but I'm assuming you'll want that, so we've started to work on it. The rate smoothing write-off impact will have a significant impact on rate increases as the recovery of the account was to occur by F2024. The FN one might not be as significant as it had a longer amortization period. **s.13; s.17**

**s.13; s.17**

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Let me know if you want us to pull something more fulsome together.

Cheryl

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**Cheryl Yaremko** | EVP Finance & Business Services and CFO

**BC Hydro**

333 Dunsmuir St, 18th floor

Vancouver, BC V6B 5R3

**P** 604 623 4110

**E** [cheryl.yaremko@bchydro.com](mailto:cheryl.yaremko@bchydro.com)

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-BCHydroDisclaimerID5.2.8.1541

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3	Trade Income Deferral Account	128	(56)
	Total	552	(242)
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6	Total Finance Charges	(150)	102
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	Total	(135)	64
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26	IFRS Pension	535	(28)
27	IFRS PP&E	1,025	(38)
	Total	1,561	(66)
	<b>Total</b>	<b>\$ 5,660</b>	<b>\$ (419)</b>

**From:** [MacLaren, Les EMPR:EX](#)  
**To:** [Sanderson, Melissa EMPR:EX](#)  
**Cc:** [McNish, James EMPR:EX](#); [Wieringa, Paul EMPR:EX](#); [Rowe, Katherine EMPR:EX](#); [Cochrane, Marlene EMPR:EX](#); [De Champlain, Rhonda EMPR:EX](#)  
**Subject:** Revised Rate Freeze Sub  
**Date:** October 25, 2017 1:28:00 PM  
**Attachments:** [CS - BC Hydro Rate Freeze 25-10-17 Final.docx](#)

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Hi Melissa:

s.13; s.17

I will bring a hard copy in the event that the Minister is comfortable signing after we address any outstanding questions or concerns she may have.

Les

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**From:** MacLaren, Les EMPR:EX  
**Sent:** Wednesday, October 25, 2017 11:00 AM  
**To:** Sanderson, Melissa EMPR:EX  
**Cc:** McNish, James EMPR:EX; Wieringa, Paul EMPR:EX; Rowe, Katherine EMPR:EX; Cochrane, Marlene EMPR:EX  
**Subject:** Site C Overview - Ratepayer and Taxpayer Impacts

Good morning Melissa:

Attached for discussion at our 2 pm briefing is a PowerPoint on taxpayer and ratepayer impacts of the Site C scenarios.

In addition, I would like to address and questions or concerns the Minister has on the Rate Freeze Submission. I have received some further comments from BC Hydro and Finance last evening and this morning. Their comments are clarifying rather than substantive. I will have an updated version to you over the lunch hour.

Cheers

Les

Page 164 of 225 to/à Page 177 of 225

Withheld pursuant to/removed as

s.13; s.17

**From:** [MacLaren, Les EMPR:EX](#)  
**To:** [Haslam, David GCPE:EX](#)  
**Cc:** [Wieringa, Paul EMPR:EX](#); [De Champlain, Rhonda EMPR:EX](#)  
**Subject:** Spoeaking Notes - Rate Freeze  
**Date:** October 26, 2017 2:06:00 PM  
**Attachments:** [CS - BC Hydro Rate Freeze 25-10-17 Final.docx](#)  
[Speaking Notes - BC Hydro Rate Freeze 26-10-2017.docx](#)

---

Hi David:

Here is our revised submission for round two at PAC on the BC Hydro rate Freeze, and some proposed speaking points. Rhonda is looking to get the speaking points to the MO by 4:00. Can you please have a look?

*Les MacLaren*

Assistant Deputy Minister

Electricity and Alternative Energy Division

BC Ministry of Energy, Mines and Petroleum Resources

**NOTE NEW OFFICE PHONE NUMBER: 778-698-7183**

s.22

*Energizing BC—clean, sustainable and productive*



Page 179 of 225 to/à Page 203 of 225

Withheld pursuant to/removed as

s.13; s.17

**From:** [Wieringa, Paul EMPR:EX](#)  
**To:** [Rowe, Katherine EMPR:EX](#)  
**Subject:** FW: Follow up  
**Date:** October 19, 2017 9:35:24 PM  
**Attachments:** [Reg Account Balances F18Q1 Revised Service Plan Forecast.pdf](#)

---

**From:** Layton, Ryan [mailto:[ryan.layton@bchydro.com](mailto:ryan.layton@bchydro.com)]  
**Sent:** Thursday, October 19, 2017 12:09 PM  
**To:** MacLaren, Les EMPR:EX; Wieringa, Paul EMPR:EX  
**Cc:** Yaremko, Cheryl  
**Subject:** RE: Follow up

Hi all:

Please see attached for use at this afternoon's discussion.

The table shows each of our regulatory accounts in use or with a balance as at the time of our F18 Q1 Financial Forecast (i.e., the forecast underlying the September 2017 Service Plan). For each account, two amounts are shown:

1. The forecast balance at the end of Fiscal 2018. This column shows the writeoff amount that would be estimated were the account to be written off at the end of Fiscal 2018. Those accounts with balances shown in parentheses, such as Total Finance Charges (\$150) means that the balance at the end of F2018 is forecast to be a credit (i.e., an amount to be refunded to ratepayers) and thus for which writeoffs are not applicable; and
2. The forecast amortization in Fiscal 2019. This column shows the savings, in the form of amortization that will not occur in Fiscal 2019, if the account balance is written off in Fiscal 2018. There are complications here regarding the Cost of Energy Variance Accounts (as these are collected in rates via the Deferral Account Rate Rider) that we can discuss on our call. Those accounts with balances in parentheses are those for which savings would apply in Fiscal 2019 if their balance was written off in Fiscal 2018. For example, Smart Metering & Infrastructure Program (\$31) means that there is forecast to be \$31 million in amortization expense in Fiscal 2019. Conversely, Total Finance Charges \$102, as a result of the credit balance mentioned above is a 'refund' to customers of \$102 million in Fiscal 2019.

In case you are wondering, the Mining Customer Payment Plan Regulatory Account does not appear in the list as it is neither in use nor with a balance. It would only become in use and with a balance if an amount owing by a participating customer were deemed to be impaired, per the terms and conditions of the program. Unless that occurs, the amounts owing are long-term receivables and do not involve a regulatory account. All other accounts are shown on the list.

Ryan

---

**From:** Yaremko, Cheryl  
**Sent:** 2017, October 19 11:36 AM  
**To:** Layton, Ryan  
**Cc:** MacLaren, Les EMPR:EX; Wieringa, Paul EMPR:EX  
**Subject:** Re: Follow up  
We will set up a call at 3:30.

On Oct 19, 2017, at 11:16 AM, Layton, Ryan <[ryan.layton@bchydro.com](mailto:ryan.layton@bchydro.com)> wrote:

Hi Les:

We think it would be most productive to be able to talk through this. Cheryl was trying to connect to see if you had some time today.

Please let us know if you're able to discuss further and we'll set something up.

Thanks

Ryan

---

**From:** Layton, Ryan  
**Sent:** 2017, October 19 9:19 AM  
**To:** 'MacLaren, Les EMPR:EX'  
**Cc:** Yaremko, Cheryl; Wieringa, Paul EMPR:EX  
**Subject:** RE: Re: Follow up  
Hi Les (and Paul)

We'll get you some additional information on this, as requested. The writeoff required to achieve this goal would be very large under most options (i.e., in order to get enough in reduced amortization savings, multiple accounts will need to be included).

We'll put together some information and get it back to you soon.

Thanks

Ryan

---

**From:** MacLaren, Les EMPR:EX [<mailto:Les.MacLaren@gov.bc.ca>]  
**Sent:** 2017, October 19 6:52 AM  
**To:** Layton, Ryan  
**Cc:** Yaremko, Cheryl; Wieringa, Paul EMPR:EX  
**Subject:** RE: Re: Follow up

Thanks Ryan

Is there a configuration of regulatory account write offs that would offset the 3% increase scheduled for April 1, 2018? Government is looking at this as a rate freeze commitment option, so we need to have an option in that context. If it is more than \$1B, then we need to understand the implications of that. We are getting jammed to meet the Cabinet schedule, so will need something today to incorporate into our submission.

Les

---

**From:** Layton, Ryan [<mailto:ryan.layton@bchydro.com>]  
**Sent:** Wednesday, October 18, 2017 8:13 PM  
**To:** MacLaren, Les EMPR:EX  
**Cc:** Yaremko, Cheryl  
**Subject:** Re: Follow up

Hi Les:

Thanks for our discussion earlier this morning regarding the email chain below. We have done some initial modelling, including the following assumptions:

- Write-off of the forecast Rate Smoothing Regulatory Account balance at the end of Fiscal 2018 (\$766 million). As this account was forecast to have additions in Fiscal 2019, writing off the balance at the end of fiscal 2018 doesn't assist with Fiscal 2019 rates, but does help in the later years of the 10 Year Rates Plan as this amount does not need to be recovered from ratepayers.
- We considered write offs of other regulatory accounts (e.g., first nations, SMI) but they have very little impact on Fiscal 2019 since the 'savings' are just the amounts that would have been recovered in Fiscal 2019,

which are small as the accounts are being recovered over longer time periods.

- We haven't gone through all of the logistics around a write-off, though we preliminarily think the writeoff may be able to be achieved without a direction to BCUC (i.e., a direction to BC Hydro may suffice since the impact is not to ratepayers). In any case, the writeoff would impact our F2018 net income by the full \$766 million and therefore would impact the *Fiscal Plan* for 2017/18 in the same amount. Our equity would be reduced, but this wouldn't impact future years' net income, or dividends in the near-mid term as both are set by direction. It would reduce our debt:equity ratio and would result in a later resumption of dividends since it would take longer to achieve our target debt:equity ratio of 60:40, though this wasn't expected to be achieved until the 2030s.

As we have mentioned before, the rate freeze results in approximately \$140 million lower domestic tariff revenue (plus approximately \$7 million lower deferral account rate rider revenue. In addition, we were forecasting to add approximately \$288 million to the Rate Smoothing Regulatory Account in Fiscal 2019. **s.13; s.17**

**s.13; s.17**

increase notwithstanding Government's desire for a rate freeze, a direction would still be required to require BCUC to set BC Hydro's net income for Fiscal 2019 to be \$424 million lower than the currently-allowed amount of \$712 million (per OIC 590).

Note that the figures above are all estimates that change each time we prepare a new quarterly financial forecast update.

We are doing further work on the impact of a writeoff of the Rate Smoothing Regulatory Account forecast balance of \$766 million at the end of Fiscal 2018 in terms of the impact it would have on rates for future years, but we know you were interested in the Fiscal 2019 situation and hence wanted to provide you with this information now.

Please let us know if you have any questions. We'd suggest that a follow up call tomorrow would be useful – please let us know and we can set something up.

Thanks

Ryan

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**Ryan Layton CPA, CA** | Director of Finance – Planning, Forecasting & Risk  
**BC Hydro**  
333 Dunsmuir St, 17th floor  
Vancouver, BC V6B 5R3  
**P 604 623 3865**  
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**E [ryan.layton@bchydro.com](mailto:ryan.layton@bchydro.com)**  
**Smart about power in all we do.**

Begin forwarded message:

**From:** "MacLaren, Les MEM:EX" <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)>  
**Date:** October 11, 2017 at 4:17:22 PM PDT  
**To:** "Yaremko, Cheryl" <[Cheryl.Yaremko@bchydro.com](mailto:Cheryl.Yaremko@bchydro.com)>  
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**Sent:** Wednesday, October 11, 2017 4:00 PM

**To:** MacLaren, Les MEM:EX

**Subject:** RE: Follow up

And here's the attachment.

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**To:** Les MacLaren ([Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca))

**Subject:** Follow up

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Page 214 of 225 to/à Page 225 of 225

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