1.0 INTRODUCTION

West Kootenay Power Ltd. ("the Applicant", "the Company", "WKP") provides electric service directly to the West Kootenay Boundary Region of British Columbia, and indirectly through its wholesale customers in the Southern Okanagan and the City of Nelson. Electricity is supplied from its own plants on the Kootenay River (Lower Bonnington, Upper Bonnington, South Slocan and Corra Linn); purchases from Cominco Ltd. ("Cominco") and purchases from the British Columbia Hydro and Power Authority ("B.C. Hydro").

The WKP system supplies approximately 66,000 direct service customers and approximately 39,000 customers indirectly through its wholesale customers. The major growth in the system is in the Okanagan and, hence, increasingly electricity must be moved long distances from the generating sources on the Kootenay River or purchased from B.C. Hydro. Currently WKP's generation capabilities, augmented by purchases from Cominco, supplies approximately 93 percent of the load with the balance of the requirements purchased from B.C. Hydro. In 1991 and 1992, this 93 percent is forecast to decline to 91 percent and 92 percent, respectively. Of the wholesale customers only the City of Nelson, which supplies itself and the North Shore area adjacent to the City, has its own generation with additional electricity supplied from WKP.

The purchases of power from Cominco are according to the "Consolidated Sale of Surplus Power Agreement" which terminates on September 30, 2005, whereby Cominco agrees to make available to WKP "energy surplus to Cominco's industrial load requirements, on a firm basis". This Agreement also provides WKP with rights of first refusal on interruptible energy. In addition, it provides a right of first refusal with regard to the purchase of Cominco's two remaining power plants; namely, Brilliant and Waneta.

The purchases of power from B.C. Hydro are according to the "Power Purchase Agreement" which provides for energy and capacity under B.C. Hydro Rate Schedule 3807. The Agreement requires WKP to nominate, on a rolling basis, ten years into the future, with the first five years subject to "take-or-pay". This agreement also terminates on September 30, 2005.

B.C. Hydro owns and operates the Canal Plant on the Kootenay River. The construction of the Canal Plant was undertaken to optimize the total generating capacity of the Kootenay River system. Under the Canal Plant Agreement, entered into in August 1972, B.C. Hydro gave average peak and average energy assurances to Cominco and WKP to September 30, 2005 as an entitlement in exchange for water rights on the Kootenay River. If the agreement is not extended or renewed, WKP is entitled to resume independent operation of its hydroelectric plants under its existing water licences.

The Columbia River Treaty ("CRT") gives Canada, after 20 years, the right to divert some water from the Kootenay River near Canal Flats to the Columbia River headwaters. This would reduce generation on the river between Nelson and Trail but WKP's water licenses predate the CRT so the Canal Plant Agreement has been taking the Duncan, Libby and CRT effects out of the flows. The historical rights to flow and Kootenay Lake storage remain and the entitlement under the Canal Plant Agreement would not be affected by the diversion.

The Canal Plant Agreement integrates the WKP and Cominco facilities with the B.C. Hydro grid, partly because of water regulation required by the Columbia River Treaty and partly because of the construction of the Kootenay Canal Plant by B.C. Hydro. To provide maximum efficiency in the use of the water resource at the Canal Plant effective control of Kootenay River water flow rests with B.C. Hydro and the power available to WKP and Cominco is no longer related to the production of their respective power plants. Agreements determine their monthly capacity and energy entitlements. WKP personnel control the Corra Linn dam from the South Slocan centre but essentially B.C. Hydro determines the actual generation at the plants.

The physical and economic life of the WKP plants are influenced by the Canal Plant Agreement. The operation of the Canal Plant by B.C. Hydro, and the use of the entitlement to power by WKP, results in reduced operating levels at the WKP plants on the Kootenay River. This, by itself, extends the useful life of the running gear in the plants which must, at all times, be maintained in good working order under the Agreement.

WKP is a wholly-owned subsidiary of UtiliCorp British Columbia Ltd. which in turn is a subsidiary of UtiliCorp Inc. ("UtiliCorp") of Kansas City, Missouri. UtiliCorp is an electric and gas utility company which operates in six states and internationally in the Province of British Columbia. In the last five years UtiliCorp's assets have grown from approximately $700 million to $1.5 billion primarily due to acquisitions. UtiliCorp encourages its utilities to enlarge their service areas by acquiring adjacent utility systems. In the United States virtually all of the company's generation is coal-fired whereas in British Columbia it is hydro-electric.

In addition to its utility operations UtiliCorp is active in non-regulated areas of the utility industry through three subsidiaries, PSI, Utilico Group and Energroup. UtiliCorp earned a return on average common equity of 13.2 percent in 1988 and 12.8 percent in 1989 with a common equity component of 43.3 percent and 41.1 percent respectively. These returns must be viewed from the perspective of U.S. Bond interest rates which were in the range of 9.9 percent and 9.6 percent while the comparable Canadian rates were 10.9 percent and 10.8 percent.

2.0 APPLICATION

WKP applied on November 30, 1989 for an interim refundable increase of 6.9 percent to be effective January 11, 1990. The Applicant stated that this increase was necessary to recover a forecast revenue deficiency of approximately $5.2 million and provide it with the opportunity to earn a return on equity of 14.1 percent.

The interim increase was approved subject to refund with interest pursuant to Commission Order No. G-67-89 dated December 8, 1989. This Application, pursuant to Commission Order No. G-15-90, dated February 2, 1990, was set down for hearing on April 3, 1990 in Rossland, British Columbia.

The hearing was postponed at the request of the Applicant and on May 28, 1990 WKP requested that the Commission reduce the approved interim rate increase to 5.5 percent as a result of increased power purchases from Cominco and other cost reductions. The Commission approved this request pursuant to Order No. G-47-90 dated June 8, 1990, but required WKP to file a revised Application by September 15, 1990. The Commission ordered the refund of the excess revenue received.

On September 7, 1990 WKP filed with the Commission evidence in support of its 1990 fiscal year and forward test years for 1991 and 1992. This evidence sought the confirmation of the existing 5.5 percent interim increase as well as further increases of 5.6 percent and 4.9 percent effective January 1, 1991 and 1992. The returns on common share equity sought were 13.68 percent, 13.75 percent and 13.75 percent, respectively for each year. The previous Application, heard in 1989, forecast increases of 7.8 percent, 10.7 percent and 7.0 percent, respectively and sought returns on equity of 14.1 percent, 14.0 percent and 14.1 percent, respectively.

Pursuant to Commission Order No. G-67-90, dated September 11, 1990, the new Application was heard in Rossland, British Columbia, commencing on October 22, 1990. The hearing required 8 days and was concluded in Rossland on November 1, 1990.

3.0 PARTICIPANTS

A number of individuals representing interested companies, municipalities, or themselves participated in the eight days of hearing. A summary of the positions put forward by the participants in argument, other than the Applicant, is set forth in Appendix C. The summary is intended to indicate the range of points of view by the participants and is not intended to be all inclusive or used without reference to the complete transcript including argument, and an examination of the exhibits. It is a brief summary only and while it does incorporate excerpts of transcript, the excerpts are not complete in presenting the particular participant's position.

4.0 SALES AND LOAD FORECAST

A cornerstone of a utility's planning function is its estimate of future sales and the amount of capacity required to satisfy those demands. Historically, WKP has prepared forecasts of the customer demands in detail for a 10 year period with a simple extrapolation for a further 10 years. The 1990 load forecast was delayed from its normal May release date to August 1990 due to labour disruptions. A detailed five-year forecast was included in evidence (Exhibit 8, Tab 1, page 16) and covered the period 1990 to 1995. The 10-year projections were included (Exhibit 8, Tab 1, pg. 34-35) in graph form only. The first seven months of 1990 were based on actual results and the last five months were estimates. The period 1991-1995 was forecast based on a number of assumptions. For its September 7, 1990 submission (Exhibit 8), the Company reviewed its previous forecast and revised its growth rates since it was becoming uncertain as to the validity of some of its assumptions:

> "Certain underlying assumptions, which had been incorporated into last year's forecast, have been changed significantly."
>
> Exhibit 8, Tab 1, page 10

In particular, testimony cited Canadian interest rate levels, the trading level of the Canadian dollar, an indication of a Canadian economic recession, and the Middle East situation. These factors and their related effects were not sufficient to cause WKP to revise the totals on its five year and 10 year forecasts in its submission.

WKP's forecasting techniques have improved over the years such that they endeavour to incorporate regional data in their projections while still making adjustments for specific local occurrences. Specific concerns during the preparation of the forecast involved the timing and the effect of the Celgar expansion, the extent and location of residential growth, especially in the Okanagan, and the amount and timing of a contraction in the lumber industry. All of these factors were considered by WKP with the result that its load was still forecast to increase as follows (Exhibit 8, Tab 1, page 16):

1990	3.3%
1991	3.0%

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1992	1.9%
1993	3.3%
1994	1.1%
1995	1.1%

These estimates were tested by the participants during the hearing and WKP witnesses defended their projections indicating that WKP will experience minimal growth in total with the Okanagan leading other areas. Underneath these projections is an uncertainty as to the timing and even the amount of total growth.

The total sales load of the Company in 1990 will be approximately 2403 GW.h (Exhibit 5, Tab 6, p. 1). A one percent change in load, 24 GW.h would be a sizeable change almost equal to the 1992 DSM target. Unfortunately the Company's estimate of the resultant change in revenue was limited to average annual rates (Exhibit 80) and not specifically targetted to high rated customer classes or negative margin rates so that the resultant $202,000 change in revenues does not accurately indicate the importance of WKP's load fluctuations as they relate to revenues of this company. Specific load reductions may well further reduce revenue requirements but the precise calculation is not available to the Commission. Thus, the Commission directs the Company to study specific load changes, by rate classes, in order to better understand the effect of load curtailment and growth at the margin. The purpose of such a study is to identify the sources of negative contribution margin and to target changes in rate design or DSM that will alleviate this anomaly.

5.0 STRATEGIC PLANNING

5.1 Background

WKP has had a long history of furnishing customers in its service area with electric service at low rates. It has benefitted from a heritage of frugal management and advantageously located hydro-electric generating sources. It has also benefitted from the long relationship as a subsidiary of Cominco, which provided WKP with both major sources of energy and a pool of experienced personnel upon which it could draw.

That situation has now changed. WKP is now a subsidiary of UtiliCorp, a Missouri-based utility holding company, and the relationship with Cominco has become one of "arms-length". Cominco has its own industrial interests as its first priority for its energy resources and no longer bears any parental responsibility for WKP's needs. At the same time, WKP's rates have been a source of unfavourable comparison for B.C. Hydro, WKP's other energy supplier. If history is indicative of the future, WKP is unlikely to receive particularly charitable treatment from B.C. Hydro in seeking negotiated solutions to its energy supply problems.

The load on WKP's system continues to grow, and significantly exceeds its generating capacity. The greater part of the load growth is taking place in the Okanagan area, on the western extremity of WKP's system. Consumption there is concentrated within municipal boundaries. These municipalities purchase energy as wholesale customers and distribute it through municipally-owned facilities to the ultimate customers. The situation is one where WKP now faces a negative margin on every new kilowatt-hour sold through most of each year. At T 969, Mr. Ash sums it up:

> "A: Yes, simply put, we are buying from B.C. Hydro around 43 mills, which is the number that's come up, and we're selling to our wholesale customers around 24 mills. So there's a very clear disparity there..."

5.2 Resource Acquisition

Clearly, resource acquisition is the major challenge facing WKP. The load currently exceeds the capacity of its own generating sources, and continues to grow (Exhibit 8, Tab 1, pp. 34-35). Cominco is a favoured first alternative because of ease of delivery and price. However, there are problems. Cominco does not have sufficient surplus to meet all of WKP's needs, and what it does have is subject to uncertainties. Cominco understandably estimates conservatively when advising WKP what blocks of power will be available, and evidence at this hearing indicates that often more energy can in fact be taken than was forecast. Nevertheless, there are stringent limits on how far the utility can gamble on meeting firm load requirements from a source that may be anticipated but not guaranteed. Then, too, a further contingency clouds the picture inasmuch as Cominco has given notice that it may reactivate its ammonia plant in Trail and it may also seek to wheel power to an associated company in the Highland Valley. Both of these commitments would reduce the energy available to WKP. The uncertainties surrounding Cominco as a source are discussed at T 1273 and following pages.

With regard to Cominco the Applicant argued as follows (T 1533):

> "I would ask you to conclude regarding Cominco, from the evidence you've heard, that West Kootenay is doing all that can reasonably be done to maximize the purchases of low cost Cominco power under the sale of Surplus Power Agreement. The Company is vigorously contesting the Highland Valley issue something I might say which is far easier to do now that it is not owned by Cominco and we say in Exhibit 17 the Cominco forecast regarding Highland Valley, 20 average annual megawatts in 1991 with a further increase of the same magnitude in 1992. Mr. Ash stated in testimony that the Highland Valley issue alone is worth three percent in a West Kootenay rate increase in each of 1991 and 1992."

The Applicant's Counsel continued at transcript page 1534 commencing at line 19,

> "Also in its dealings with Cominco, we have seen that West Kootenay is having to adjust Cominco's forecast for Cominco's own loads. In this hearing, out of deference to Cominco not being represented, Cominco's forecast have been described as "conservative" in order to provide for the industrial operation.
>
> Whether their forecasts are conservative or just sloppy, the challenge facing West Kootenay is the same, and West Kootenay is forced to make the best

> modifications it can from its own knowledge to control Cominco's or its shape, if I can put it that way, Cominco's own load forecast.
>
> West Kootenay is placed in a dilemma. If it accepts Cominco's forecast as presented in Exhibit 17 and Exhibit 82 today, and those forecasts are conservative, to use the term from this hearing, West Kootenay ends up nominating too little under the Sale of Surplus Power Agreement and therefore too much of the expensive B.C. Hydro power under West Kootenay's agreement with B.C. Hydro. This issue was explored in Volume 1 of the transcript at pages 158 to 164 with regard to 1990 and 1991.
>
> The cost of this problem in those years were $409,000 and $845,000 respectively, as shown at pages 72 and 73 in Tab 1 of Exhibit 8."

He went on to state that the above scenario is one of the main arguments in support of the gas turbine whose "back-up" capability would allow the Applicant to be more aggressive in modifying Cominco's forecasts.

Purchase of power from B.C. Hydro is an obvious alternative; one that is presently being used. If this choice is settled upon as a long-term solution, then there are alternative methods of implementation. According to WKP the most advantageous method would be to take delivery from an existing B.C. Hydro 500 kV transmission line in the vicinity of Vaseaux Lake. To do so would necessitate construction of a substation---the Vaseaux Lake Substation---which was the subject of much discussion in the course of this hearing. The record indicates that there are a number of areas where agreement has not been reached between B.C. Hydro and WKP on the allocation of these costs (T 834). Moreover, terms and conditions of purchasing energy are far from settled.

The Commission believes that further investigation of proposals put forward by Commission Counsel during the hearing is warranted, and therefore directs the Company to evaluate these alternatives and report prior to making further significant expenditures on the Vaseaux Lake substation.

The original Decision approving B.C. Hydro's power purchase and wheeling rates to WKP was issued October 15, 1986, and was the culmination of years of "ad hoc" purchases by WKP from B.C. Hydro. This "Dispute Decision" set actual rates only for the transition period to 1990, but established certain principles for negotiation of rates in the longer term. WKP and B.C. Hydro staff completed negotiations on the power purchase and wheeling agreements in December 1987 and submitted recommendations to their respective managements. B.C. Hydro rejected the draft Agreements, precipitating a West Kootenay Complaint to the Commission under Section 98 in February 1988. B.C. Hydro's response (March 7, 1988) was that the Commission had no jurisdiction to "dictate to the parties the basis on which they are to negotiate a rate in the future and the Commission has not done so [in its Order]". An agreement was signed in March 1988 and WKP withdrew its complaint.

In May 1989, WKP attempted to begin negotiations with B.C. Hydro for the period beyond October 1, 1990, based on "...the cost principles employed in determining power purchase rates applicable to other B.C. Hydro customers." (Section 8.02 of the Power Purchase Agreement). This wording came from page 25 of the Dispute Decision which said:

> "Beyond 1990 the Commission concludes that the principles employed in determining the power purchase rates should be the same as those used to determine the rates applicable to other B.C. Hydro customers. The contract should, therefore, provide for renegotiation of the rate after 1990. In negotiating with respect to rates for the period beyond 1990, the parties should bear in mind the Commission's conclusion that the long-term rate should not be based on incremental costs. The Commission concludes that the terms and conditions attached to the transitional rate should reflect the unique characteristics of the B.C. Hydro/WKP relationship, and should remain for the long-term."

B.C. Hydro declined to negotiate based on these principles and, on October 6, 1989, it applied for a reconsideration of the Dispute Decision. B.C. Hydro wanted the new rates to "reflect the long term cost of new supply resources" and refused to negotiate with WKP on any other basis. The Commission canvassed the parties to the Hearing and concluded that the changed circumstances relied upon by B.C. Hydro did not warrant altering the principles. After submissions from WKP and Intervenors to the 1986 Hearing, the Commission denied the Application as set forth in Commission Order No. G-14-90 dated February 6, 1990. An extension of the transition period for one year was applied for and granted by the Commission pursuant to Order No. G-22-90. In accordance with this

Order WKP must make its nomination by May 31, 1991 with new rates not yet in place and the existing rates expiring in October 1991. In the current circumstances, WKP may need to have a further deferral of operative dates.

The Applicant's Counsel, at T 1536 addressed purchases from B.C. Hydro:

> "Now, I want to turn to the other side of the power purchase ledger or equation, and that is B.C. Hydro. Obviously the less of the inexpensive power that we can get from Cominco, the more of the expensive power that West Kootenay is obligated to get elsewhere, and elsewhere has meant B.C. Hydro.It is easy for all of us to assert that West Kootenay's contracts with B.C. Hydro for future years are unsettled, and that it is in the interests of all concerned that they be more settled. That is not in dispute.
>
> I ask the Commission, though, to consider the history of dealings between West Kootenay and B.C. Hydro before drawing any conclusions from that uncertainty, which are in any way adverse to West Kootenay's position in this hearing. And a helpful summary of the background between West Kootenay and Hydro, Mr. Chairman, on this issue is found beginning at page 5 in the Commission's decision of October, 1986 in the dispute between B.C. Hydro and West Kootenay.
>
> From 1978 when West Kootenay first required power from B.C. Hydro, the parties were only able to negotiate short-term agreements year by year up to 1985. In 1985 B.C. Hydro refused to sign an agreement and told West Kootenay that B.C. Hydro's rate schedule 12-11 [1211] would be applied to West Kootenay from then on. That was too expensive. West Kootenay brought a complaint under section 64 of the Act, and that was filed with the Commission in November of '85. A lengthy hearing was held, which began after two adjournments caused by Hydro, on May 12th, 1986.
>
> The Commission released it's 62 page decision in October of that year, which ordered the parties to enter into a long-term contract. In its full consideration of this issue the Commission expressly rejected B.C. Hydro's position that long-term price of power should be based on marginal cost principles.
>
> The parties then began negotiating the wording of the contract to embody the provisions of the Order of the Commission from 1986. B.C. Hydro stalled and stalled and refused to sign an agreement embodying average cost principles which were clearly spelled out in the decision. West Kootenay was thus forced once again to bring a complaint to the Commission against B.C. Hydro. When that complaint was pending, B.C. Hydro signed the agreement, in 1988 I believe, embodying average cost principles. The timing of the signing was such that it was clear, in my submission, that Hydro only signed in light of the pending second complaint.

Then in 1989, Mr. Chairman, B.C. Hydro applied to the Commission seeking a variation of the Order of 1986. It alleged new circumstances and argued that the factual matrix underlying the 1986 decision was no longer present. The Commission entertained written submissions. By its Order of February 6, 1990, the Commission again rejected Hydro's position and dismissed its application for reconsideration.

One of the recitals of the Order of February 6, 1990, which is Exhibit 92 here, stated that, "Whereas the Commission requested from and West Kootenay responded to the application documents on November 2, 1989 and stated that it was willing to enter into a long-term power purchase contract with B.C. Hydro in accordance with the principles set out in the decision."

In the conclusion on page 5 of the Commission's Reasons for Decision in support of its Order No. G-14-90 (Exhibit 92), the Commission wrote:

"The changed circumstances relied upon by B.C. Hydro do not go to the heart of the decision, and accordingly do not warrant altering the principles to be used to determine the just and reasonable rates to be charged to WKP. It is unduly discriminatory for B.C. Hydro to structure its rates to WKP based on the greater of opportunity cost and marginal cost, when it does not treat other customers in this way. In the result, the Commission denies the request by B.C. Hydro and reiterates its conclusion as set forth on page 25 of the 1986 decision. Beyond 1990, the Commission concludes that the principles employed in determining the power purchase rate should be the same as those used to determine the rates applicable to B.C. Hydro customers."

Mr. George, a commercial customer, expressed a similar view when he stated at T 1600, as follows:

"To be fair to West Kootenay Power, it is since its take-over indeed between a rock and several hard places. Here we have B.C. Hydro, being a larger and --- being larger and difficult to negotiate with. There we have Cominco not having as much energy to sell as previously. Over there we have the new parent company trying to get a fair return on its shareholders investment. There again is West Kootenay Power's insufficient generating capacity and here an uncertain outlook.

Overseeing all this we have the B.C. Utilities Commission, which seems now to be holding up a large sign before West Kootenay Power and B.C. Hydro which says it's rate design time.

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> Since West Kootenay does not know what B.C. Hydro's rate design will bring or how much energy Cominco will really be able to make available, how can it possibly nominate power requirements from B.C. Hydro at all?"

In addition to the above, WKP has pursued the option of building a gas turbine plant as an ingredient in solving its supply problem. The gas turbine Application, after a hearing, was unsuccessful albeit the Company is still pursuing it at an alternative location. That Application forecast an expenditure of $36 million on the gas turbine option.

Questions such as those at T 1285 disclosed that WKP has not aggressively investigated possible out-of-province power sources (Alberta or the Pacific Northwest Region of the United States) nor has it aggressively pursued the storage option with B.C. Hydro as suggested by the Commission at page 16 of the April, 1989 Decision. With the severity of the resource acquisition problems facing WKP it is incumbent upon it to leave no stone unturned in the quest for acceptably-priced alternatives for meeting load and load growth.

In addition to the above option it would appear to the Commission that an opportunity may exist with regard to Independent Power Producers or developing new generation through the use of its parent's expertise in coal-fired generation. It is to the benefit of WKP and its customers if WKP can place itself in a more advantageous position with regard to resource acquisition. Accordingly, WKP is directed to report quarterly to the Commission on its initiatives and its success in pursuing these.

5.3 Demand-Side Management ("DSM")

Apart from the above, opportunities exist with regard to DSM ("Power $ense"). The Applicant characterizes its DSM efforts as "...DSM has become part of the utility's operating fabric." (T 1563). With reference to the Commission's April 25, 1989 Decision at page 24, and the evidence adduced during the hearing, it appears as though many of the essential components are in place. Significant progress has been made and forecast performance reflects a growing contribution towards meeting load growth (Exhibit 46).

However, when questioned about WKP's level of commitment to DSM (T 331), the Applicant agreed that achievement of 3.4 percent of load by 1999 does not constitute an aggressive target.

WKP is following the development pattern in DSM resource acquisition similar to some other utilities. This pattern is generally as follows: recognition of the marginal cost of additional power including transmission, distribution and losses; setting operational objectives; scanning of program designs used by other utilities; engineering estimates of efficiency savings; test marketing and initial market offerings. The initial market offerings of other utilities have ranged upwards from a conservative 50 percent sharing of DSM costs with the customer, depending upon urgency. WKP's DSM program is summarized (Exhibit 8, Tab 1, page 48) and shows that, overall, WKP has set incentives, promotion and administration levels at 49 percent of total resource costs.

Aggressive DSM depends upon useful and reliable information concerning the technical, economic and achievable potential of the DSM resource by end-use market segment. Primary market research, that identifies customer preferences and that establishes effective benchmarks to prove performance of the DSM investment, are other keys to aggressive acquisition. The development of these information resources will improve WKP's confidence level and provide the basis upon which optimum acquisition of the DSM resource can be targetted and verified. Two key initiatives are currently under way that should yield much of the needed information. These are the "1990 Residential Survey" and the "1990 Conservation Potential Review".

B.C. Hydro and WKP are currently participating, along with other utilities and the Provincial Government, in a load research study of the residential market, the "1990 Residential Survey" (Exhibit 79). This end-use study of the energy consumption behaviour of British Columbia residents will form part of the foundation for the assessment of the DSM resource potential, the "1990 Conservation Potential Review". This second study is one initiated by B.C. Hydro in which WKP plans to participate (T 635). The objective of this study is to assess the technical, economic, social (behavioural), and achievable potential for efficient use of electricity in B.C. disaggregated by sector and end-use. Estimates of the DSM potential will be made for 1990, 2000 and 2010 time frames. The study results will be available during the last quarter of 1991.

Verification of DSM success is obviously a critical prerequisite to motivate further investment and to optimize the portfolio of DSM programs. The Applicant acknowledged (T 1476), that both impact evaluation, and process evaluation, need further development by WKP. Effective impact evaluation, in the residential market, will also be aided by the results of the "1990 Residential Survey". Resource planning depends upon useful information in this area and the Commission encourages further cooperative efforts that will achieve useful results.

WKP sets out the results of its current estimate of achievable DSM from fully implemented programs (Exhibit 8, Tab 1, page 44). By 1995, 2.5 percent of total load is forecast to be provided by DSM and this represents about 23 percent of load growth from 1989, excluding the reduction in Celgar load. WKP sets out the details of its DSM cost forecast, in nominal dollars, to 1995 and this totals approximately $9.3 million (Exhibit 8, Tab 2, page 28). If the customers' portion were included this amount would double.

Ignoring the drop in the Celgar load, DSM in the general service and industrial sectors is forecast at about 28 percent of load growth in these sectors by 1995 (Exhibit 46). This forecast is to be achieved mainly from efficient lighting and motors programs. The residential sector is forecast to contribute 22 percent of its load growth by 1995, while the wholesale group is forecast at 15 percent.

In its tabulation of DSM targets (Exhibit 8, Tab 1, page 45), WKP identifies penetration rates in the general service and industrial sectors, but it does not have information with regard to the percentage of economic potential these targets represent. Programs directed at these sectors are new, and designed along the lines of B.C. Hydro counterparts.
The Applicant compared its DSM program with B.C. Hydro's "Power Smart" (T 1408) and stated that WKP does not plan any program related to encouraging customers to change from electric energy to natural gas. The Applicant did, however, identify several programs similar to B.C. Hydro programs that will be implemented by WKP within the next five

years. These programs are: municipal building audits, commercial building retrofit, new commercial building design, energy management control, economizer program, energy efficient fans and pumps programs, new industrial plant energy assessment, plant retrofit, plant audit and efficient compressed air programs. WKP only forecasts the benefits and costs of DSM programs actually launched (T 331), whereas B.C. Hydro forecasts all DSM programs that are under active consideration.
During the course of the hearing the Applicant and the municipal wholesale customers resolved the DSM cost sharing issue that was the subject of Commission Order No. G-38-90. The Applicant (T 1398) indicated that the issue was more appropriately dealt with in a rate design hearing and that the municipal clerks will advance a recommendation to the municipal governments involved that could result in Power $ense being available in those areas.

The Commission explored with the Applicant, (T 1479), the potential for increasing supply from Cominco through a WKP-sponsored DSM program designed expressly for that company's industrial enterprise. The Applicant indicated that such a program has been considered and that WKP will report to the Commission on the status of that effort. WKP is directed to provide that report by July 1, 1991. If successful, this program would assist Cominco by lowering its costs while, at the same time, increasing the energy available to the Applicant.

The Applicant indicated, (T 1463), that an investigation as to the DSM potential in the "Big White" resort area will be conducted during 1991, with a view to determining the extent to which DSM could defer significant capital expenditures to meet future load growth.

The Applicant prepared a tabulation (Exhibit 8, Tab 1, p. 39) demonstrating that new residential space heating customers do not contribute enough revenue, from their heating load, to pay for the cost of power purchased on their behalf from B.C. Hydro and this problem is addressed in Section 9.3. The full capital costs incurred by WKP in connecting these customers are never paid back. In its October 5, 1984 Decision regarding WKP's rate design, the Commission identified the cost of a 200 Ampere service connection as approximately $838 compared to the proposed connection fee of $27. The electric space heating tariff of the District of Summerland contains a provision that recovers $360 of their connection costs (Exhibit 8, Tab 4, Question 1). Full rate design may be the most appropriate way of solving this anomaly; however, action must be taken by WKP to prevent further uneconomic attachments of residential electric space heat. WKP should also consider similar treatment for electric space heating load of its general service customers.

The Commission directs WKP to modify its proposed connection fees in its Tariff Schedule 80 so that new installations of residential space heating will pay the full cost of the connection and other related costs. Additional revenue generated from the new connection fee is to be held in a deferral account pending disposition upon application to the Commission.

CAC et al argued, (T 1620), that West Kootenay Power "...should become the flag ship utility on demand-side management. It needs demand-side management. I submit it needs demand-side management even more than B.C. Hydro".

The Commission directs WKP to reassess its DSM targets recognizing that now and for the foreseeable future, this resource is its least-cost, most flexible and most environmentally benign source of power. The challenge to meet both load growth and diminished supply from Cominco with the DSM resource is one that must be aggressively addressed by WKP. Essential aspects of this challenge include:

(a) Assessment of the DSM resource potential in conjunction with B.C. Hydro.

(b) Assessment of the DSM resource potential within the Cominco operations.

(c) Offering the fullest feasible range of DSM programs that meet the total resource cost test.

(d) Marketing mix tuned to the preferences of market segments in order to maximize penetration of the most efficient technologies.

(e) An aggressive DSM plan that targets acquisition of 75 to 90 percent of the economic resource potential by the year 2000.

(f) Monitoring and evaluation systems to verify the impact of DSM programs and to assess the effectiveness of delivery processes.

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(g) Full adoption of Least-Cost Integrated Resource Planning.

(h) Semi-annual DSM reports to the Commission commencing July 1, 1991.

In its direction to WKP to become more aggressive with its DSM program, the Commission is aware of the fact that more aggressive DSM, if it is not accurately factored into a B.C. Hydro firm power purchase nomination, could result in excessive nomination of energy with resulting higher costs and higher rates or loss of income. The B.C. Hydro contract from WKP's perspective may be disadvantageous to WKP in that it contains provisions whereby WKP is bound to take or pay for 90 percent of the energy nominated and has limited rights to decrease nominations from year to year should WKP find the means to do so. The "take-or-pay" concept may also be disadvantageous to B.C. Hydro's own electrical efficiency strategy by causing resulting surplus purchases to be price discounted to wasteful levels. Unless WKP can negotiate a further extension of its nomination date obligation with B.C. Hydro, it will be required to nominate its power needs with B.C. Hydro by May 1991 for the operation years October 1, 1991 through September 30, 2000. The power supply nomination with B.C. Hydro is made each year on a "rolling basis" with the first five years firm and the remaining five years subject to some modification. Therefore, DSM, as an alternative source of supply, must be considered with as much care as WKP considers its supply from Cominco, when nominating on a firm basis with B.C. Hydro.

5.4 Environmentally Smart ("ES")

DSM programs can, in themselves, pose environmental challenges. The concept of "environmentally smart" suggests that the full consequences of a DSM initiative must be considered so that an economic and environmentally beneficial program, from the individual utility and customer perspective, is also beneficial to the community at large. An example of this is in connection with a program directed at buying back inefficient residential refrigerators. WKP is considering a program in this regard, but has some concerns regarding the environmental problems posed by the CFCs (chlorofluorocarbons) that are used as a refrigerant, and that are associated with deterioration of the ozone layer in the upper atmosphere. WKP discussed this, in response to a question posed by the Commission panel at T 1147:

> "With the refrigerator buy-back, we have looked at that program subsequent to your request, and we participated in the--I guess it's the fridgebusters program in--that moved up to Vernon, and that's the test project that B.C. Hydro has. We looked at that and relooked at it again, and on the surface it looks like there are some reasonable energy savings. Some of the problems with that program and the CFC part of it is what do you do with that stuff, where do you store it and what are the costs of reclaiming it or getting rid of it.
>
> We haven't pursued that because there may be some large liabilities of the owners of this later down the road."

Similar consideration must be given to other Power $ense initiatives to ensure the program is environmentally smart; that is to say, that there is a net environmental gain as opposed to merely a transfer of the problem. To be more explicit, the introduction of energy efficient light bulbs, for example, is beneficial provided the eventual disposal of the spent units does not create as great a problem as was avoided by their introduction. Similarly, the substitution of wood stoves for electric heat on a wide scale might create emission pollution worse than the original problem. Yet a third consideration is the trade-off between the benefits of new equipment or appliances in terms of more efficient energy consumption as compared with the energy efficiency of extending their useful life, thereby deferring the energy and other resources consumed in the total process of manufacturing their substitutes.

5.5 <u>Least-Cost Integrated Resource Planning</u>

Consideration of alternatives has always been basic to the planning process. In recent years, North American utilities have tended to formalize the process, giving emphasis to treating energy conserved as equivalent to energy produced. Their term, Least-Cost Integrated Resource Planning, ("LCIRP") has become associated with that focus. At T 957 and following pages, WKP policy witnesses were questioned as to the Company's adoption of LCIRP elements, which might be characterized as follows:

(a) the development of a range of load forecasts;

(b) the consideration of all feasible alternatives for balancing supply and demand;

(c) the assessment of supply and demand resources on a consistent and equal footing, including cost and size of available resource;

(d) a focus on resources that: reduce uncertainty of meeting future load growth; are flexible with regard to short lead times, size and cost; improve system diversity and have low environmental impacts;

(e) the development of a least-cost resource portfolio to meet a range of expected futures;

(f) the active involvement of the public in the process; and

(g) an action plan to determine the specific actions which are required in the short-term to implement the long-term strategy.

WKP witnesses testified that they do indeed embrace these principles. The evidence in total does suggest, however, that WKP has been very conservative in assessing the potential of demand-side management and the savings attributable to date are quite modest (T 326).

5.6 Future Direction

Uncertainties plague the supply-side options of WKP, and the problem is further exacerbated by the fact that the priorities in pursuing one option conflict with priorities for pursuing another---the gas turbine versus the Vaseaux Lake Substation being the most glaring example.

There is a need to focus attention on strategic planning to clear away the uncertainty that presently exists as to where the Company is headed. Either additional sources of supply must be clearly identified and prioritized, or serious consideration needs to be given to shrinking the service area boundaries of the Company, as discussed at T 970.

Mr. Macintosh made reference in argument to the vital importance of attractive customer rates to the very continued existence of WKP (T 1524). Recognizing this, the Company can have no higher priority than to develop a strategy upon which its action plans are based that will retain its position as a significant public utility company in British Columbia.

6.0 COST OF SERVICE

6.1 Operating Expenses

WKP forecasts its power purchase and wheeling costs to increase by approximately $6.7 million while anticipating minimal load growth. The Commission has considered the estimated cost for 1990, 1991 and 1992 and accepts the estimates in these circumstances for 1990 and 1991 but finds a significant degree of uncertainty exists with regard to 1992.

The Commission has reviewed the actual and forecast operating expenses in detail. The 1990 forecast expenses are primarily actual results (seven months actual, five months forecast), whereas the 1991 expenses are the result of detailed forecasts. The 1992 expenses are an extrapolation of 1991, adjusted to reflect the Applicant's assumptions of economic circumstances prevailing during 1992. In addition to considering the reasonableness of these expenses from a WKP perspective, the Commission has also considered the expenses in comparison to other utilities.

The external comparison compared the Applicant's performance with established measures from the Canadian Electrical Association. The comparisons considered, and set forth in Appendix A, were as follows:

(a) Operations, Maintenance and Administrative Unit Cost;
(b) Generation Unit Cost;
(c) Transmission Unit Cost;
(d) Transmission Unit Cost per km;
(e) Distribution Unit Cost; and
(f) Administrative and General Unit Cost.

The Applicant, in its evidence, stated that its operating and maintenance expense was forecast to increase by $790,000 in 1990, $2,194,000 in 1991 and $1,029,000 in 1992. The forecast increase over the three year period is comprised of additional labour cost of $3,070,000 primarily related to its new labour agreement which provides for increases of 9 percent and 7.25 percent in 1990 and 1991, respectively; material cost increase of $810,000 and miscellaneous increases of $510,000. These increases are offset by increases in other income of $353,000 and decreases in AFUDC and water fees. In view of the significant labour cost increases incurred as a result of the Applicant's latest agreements, even greater emphasis must be placed on achieving enhanced efficiencies from the Company's human resources, both union and non-union.

In reviewing the statistical comparisons between the Applicant and other electrical utilities it is apparent that the Company is, on these measures, statistically more efficient than the average Canadian electricity utility. The Company is to be complimented in this regard and these measures reinforce the Company's argument as to its financial and operational prudency.

WKP conducted a survey of customer payment preferences (Exhibit 2, Tab 2, pp. 20-21; Exhibit 8, Tab 2, p. 6). The result of this survey prompted the implementation of a prestamped return envelope. The arrangement with the post office is that WKP only pays for those envelopes actually used by its customers, and WKP will be paying the cost rather than the customer paying directly for the envelope and postage. The cost will be approximately $100,000 per year. WKP expects that savings will accrue both on account of automated handling of the envelopes and possibly a reduced payment lag, but no savings are forecast in the Test Years (T 1004, 1005).

WKP has increased its forecast of payment lag by ten days to reflect recent experience (T 1471). That experience, however, includes only a brief period during which the prestamped envelopes have been in operation. The last Rate Application contained a "billing to collection lag" of 16.6 days and the current Application increases this to 24.7 days. The revenue required to compensate for this change is approximately $90,000 per year.
The Commission directs WKP to reappraise its collection lag after the prestamped envelope has had sufficient time to cause an impact, and in the interval to keep the collection lag forecast unchanged. A downward adjustment to the allowance for working capital of $534,000 is required. If it turns out that the prestamped envelope is itself causing a significant net increase in the utility's costs then the customers should be made aware of the impact of this on their rates and canvassed again as to whether or not they wish this program to continue.

The Commission otherwise accepts the Applicant's forecast with regard to 1990 and 1991 but is concerned with the uncertainties inherent in 1992 and who bears the risk thereof.

6.2 Accounting Orders

According to Exhibit 5, Tab 2, Page 3, this Application is predicated on the Commission issuing accounting orders to approve a number of assumptions made by WKP (see Appendix D). The request is for approval of deferred revenue accounts for sale of surplus take or pay, deferred expense accounts for property taxes and short-term interest, and certain amortization periods for other costs. Ordinarily, generally accepted accounting principles and the Commission's Uniform System of Accounts would dictate the treatment of these items. It should be recognized that the assumptions do not increase or decrease the expenditures actually made but that the issuance of accounting orders enables the Commission to vary the impact on rates in any given year.

The Commission has reviewed these items and concurs with the Applicant's treatment (as amended by Exhibit 91) with the exception of the following:

Items i and ii both refer to the treatment of revenue from the sale of surplus take-or-pay energy in the October-September operating period. For greater certainty, the Commission directs that revenue and costs associated with surplus in the 1991 power purchase year shall not impact on fiscal 1990, but shall be deferred to 1991.

The Commission directs that the costs of the Gas Turbine should remain in deferred charges, without amortization and carried in Rate Base until final disposition of the project. The Commission also directs that the Rate Application costs should be written-off over two years.

WKP proposes to write-off the costs of the "Goodhart, King and Associates" efficiency study over the years 1990 and 1991. That study recommended some reorganization and supervisory training (Exhibit 5, Tab 9, p. 3), and cost $355,000 (Exhibit 3, Question #5). Labour savings for the next five years are forecast by WKP as a quantifiable benefit of the study. These savings range from $160,000 in 1990 to $210,000 in 1995; plus a further one time saving of $120,000 is forecast on account of eliminating the need for a new South Slocan office (Exhibit 8, Tab 2, p. 8). The Commission directs that the costs be written off in 1990.

7.0 RATE BASE

7.1 Introduction

In this section attention is focussed on the property of the Company which is used and useful in furnishing utility service, and on those additions to plant which are needed to maintain service and provide system improvements. The basic material in the Application relevant to this section is contained in Exhibit 5, Tabs 3, 4 and 5. None of the monetary amounts in the Application were seriously challenged by any of the Intervenors. Discussion was directed more towards system planning, and timing of new projects.

7.2 Reliability

WKP provided statistics on its service reliability data compared with other Canadian electric utilities (T 855, Exhibit 41). These statistics showed that WKP's performance is good in relation to Canadian Electrical Association ("CEA") figures for other Canadian utilities, with duration of outages being substantially shorter than CEA averages, though frequency of interruptions is somewhat higher. The conclusions from this evidence are that the Company does not have particular trouble spots requiring attention but rather needs to make system improvements as required to maintain what is already a good grade of service.

Company witnesses indicated a concern about the utility's "single contingency" reliability, by which is meant that a major outage should not occur to any part of the service area as a result of failure or accident to any one link. The Commission agrees that the utility should strive to eliminate its single contingency outage vulnerability, when it is economical to do so, since this is consistent with modern electric utility practice.

7.3 System Planning

The lack of a clear strategic plan produces consequential problems in system planning. The picture that emerged from the evidence as a whole was that the Company is tentatively pursuing an excessive number of alternatives, and this must result in inefficient consumption of planning effort.

Having said that, the Commission recognizes that a number of the more serious problems are not solely of WKP's making. Nevertheless, the uncertainty regarding resource acquisition, for example, makes it difficult to plan transmission system upgrades.

In cross-examination, Mr. Loo agreed that a gas turbine plant would be the Company's preferred option for firming-up power supply (T 1448), and some work is still proceeding on this project. However, it is not now in WKP's 5-year plan (T 255) and expenditures to date of $1,560,000 have been transferred to deferred charges.

With the gas turbine project excluded from the capital plan, at least for the time being, the South Okanagan substation (Vaseaux Lake Substation) has been substituted in its place to acquire power from B.C. Hydro. Though the expenditures for the South Okanagan substation do not have a direct bearing on this Rate Application because they are accounted for as Construction Work in Progress and will not have an impact on rates for either 1991 or 1992, the proposed outlay is considerable: $527,000 by December 1991, a further $11,562,000 during 1992 for the station itself; and a further $565,000 in right-of-way acquisition costs for the transmission line to tie it into WKP's R.G. Anderson substation.

A possibility exists that WKP could secure additional energy from an expansion at Cominco's Brilliant generating station (T 266) and it is the sort of project that the Company would like to pursue (see Appendix "E"). Mr. McKay testified that Cominco has agreed in principle, but there remains a question of what payment would be required in respect of the dam. More serious is the question of payments to B.C. Hydro for water availability from upstream dams under its control. In addition, the design of the project, and hence the cost, would be impacted by a policy position by the Province of British

Columbia as to whether it should be developed for maximum capacity or average flow (T 267). Construction costs escalate steeply as the design capacity is increased.

Waneta is another site that has possibilities for development, but it is less economic than Brilliant, and is also subject to some development uncertainties (T 271). Cost of purchased power over the long-term must be known before the economic feasibility of a project like this can be determined.

The upshot of all of the preceding is that there are no supply-side projects to be brought into plant in service for 1991 or 1992 (T 272) as there is no definitive plan for resource acquisition. The Company has the need and the money, or access thereto, but no plan has yet been developed.

The Company is planning on rebuilding its No. 11 line, upgrading the voltage from 160 kV to 230 kV to increase transmission capability between Trail and the Okanagan. This line extends from Castlegar to Oliver. Without a significant energy source in the western end of its system, this line cannot be taken out of service; therefore WKP has decided to pioneer the practice of hot line work applied to these transmission voltages. Test sections are presently being worked upon to determine the feasibility of rebuilding the whole line by these techniques. The Company is in the forefront of the industry in this endeavour, and the Commission commends its innovation which, if successful, will avoid the costly acquisition of additional right-of-way to construct a parallel line as well as increased purchased power cost while the line is out of service.

At T 1236 and pages following, there is discussion of "the Okanagan loop", a proposed 230 kV transmission line from the South Okanagan through Vernon, tying into B.C. Hydro's 500 kV system at both ends, and paralleling WKP's existing transmission system up the Okanagan Valley. Besides increasing reliability, it would significantly reduce line losses in WKP's system. At Exhibit 8, Tab 1, page 64 the statement is made:

> "While losses would go up on the B.C. Hydro system, they would drop significantly more on the West Kootenay system, thus creating a net savings."

That net savings is quantified at T 1259:

> "Mr. Bauman: Q: And it seems quite significant. You say that the estimated net savings between B.C. Hydro and West Kootenay amounts to about 13 megawatts and 44 gigawatt hours.
>
> Mr. Siddall: A: That's correct."

The estimated saving is, in fact, considerably greater than the Company's forecast of savings from its demand-side management initiative by 1992 (T 1568). Mr. Siddall went on to observe that since this would result in reduced demand by WKP on B.C. Hydro, it should be in line with B.C. Hydro's own objectives of reducing the level of generation needed to meet total loads. Unfortunately, the evidence indicates that B.C. Hydro has been less than enthusiastic in bringing this proposal to pass. With so much at stake, however, the Commission urges the Company to pursue this matter vigorously with B.C. Hydro to bring negotiations to a successful conclusion. This is predicated on the assumption that the Vaseaux Lake substation is on WKP's agenda for early completion. Overarching all of this is the unresolved question of the long-term purchase price of energy supply from B.C. Hydro. Until that issue is settled, all system planning is held in a state of suspension.

7.4 Forecast Additions to Plant in Service, 1991 and 1992

Exhibit 5, Tab 3, and Exhibit 8, Tab 1, pages 68 to 70, provide the Applicant's basic evidence on prospective additions to plant. For the year ending December 31, 1991, total forecast additions are $22,005,000. The five largest expenditures are:

1.	Customer extensions and upgrading	$6,476,000
2.	Oliver terminal upgrade	2,498,000
3.	Generation plant improvements	1,863,000
4.	Summerland 60 kV transmission line	1,784,000
5.	Glenmore-Rutland Road 138 kV transmission line	1,650,000
		$14,271,000

For the year ending December 31, 1992, total forecast additions are $21,406,000, and the five largest expenditures show a different relationship, namely, one single large project (eg. Big White) dominates the year's program:

1.	Big White, transmission plus distribution	$6,249,000
2.	Customer extensions and upgrading	6,206,000
3.	Generation plant improvements	1,979,000
4.	Winfield area transformer upgrade	1,049,000
5.	General transmission system upgrades	874,000
		$16,357,000

It will be seen that the five largest expenditure categories in each of the two years listed account for between two-thirds and three-quarters of the total budgetted additions. For the most part these projects are readily understandable, which no doubt explains why there was little in the way of specific challenges to the Company's proposals. Closer examination of the detailed material shows a commendable practice of moving salvaged components from one location for re-use in another, and a general evolution towards higher voltage transmission. Also commendable is the transition towards standard voltage levels from some of the less usual ones which WKP has had reason to adopt in the past.

While the intervenors stopped short of holding that expenditures to serve the proposed Big White recreation development should be deferred, or amended in specific ways, there was a general uneasiness expressed as to how realistic forecasts of demand might be, especially with the prevailing threat of recession clouding the outlook for the economy. The Commission shares this concern in the light of how large an expenditure the Big White project is compared to the construction program in general. The Company is directed to conduct, and report on to the Commission, a critical review of forecast loads at Big White, together with alternatives for serving it; alternatives which would leave the Company less exposed financially in the event that the developer's expectations are delayed in realization. This may even entail a form of security from the developer.

Perhaps the most disturbing aspect of examination of rate base additions was the disclosure that WKP appeared to pay little attention to some rather definitive directions in the Decision on the previous hearing. At T 201, Mr. McKay stated that the Company had redefined priority levels to be assigned to construction program items because it found difficulty in distinguishing between the terms "essential, mandatory and desirable" used in the Decision. The Chairman pointed out (T 202) that definitions of the terms were included in the Decision. This exchange, and the response to staff question 26 (Exhibit 8, Tab 1, p. 68) leads one to question whether WKP officials read thoughtfully and respond appropriately to directions received from the Commission. Certainly there is no intention on the part of the Commission to take an uncompromising position, or to insist that its terminology must be adopted if there are good and sufficient reasons to do otherwise. However, it is emphasized here that if instructions are unclear, or if better alternatives present themselves to the Company, WKP has an obligation to communicate these matters to the Commission promptly so that the Commission can deal with these issues as they arise and not wait until the next formal proceeding to have them uncovered. In this instance, what the Commission aimed to do was to have the Company establish a clear understandable planning system; in particular, one for prioritizing construction program expenditures, then follow through according to that system.

8.0 CAPITAL STRUCTURE AND RETURN

8.1 Introduction

As a result of the 1989 revenue requirement Decision, WKP was allowed the opportunity to earn a return of approximately 14.1 percent within a range of 14.0 percent to 14.5 percent on a common equity component of 42.4 percent.

In the current application, WKP has requested the following capital structure and return on equity.

	Capital Structure	Return on Equity
1990	44.8%	13.7%
1991	46.4%	13.7%
1992	46.4%	13.7%

In support of this application, Dr. Robert Evans provided evidence with regard to the appropriate capital structure and return on equity ("ROE"). Dr. Evans testified that a suitable capital structure for WKP would contain 40 percent to 45 percent common equity on which a return of 13.75 percent to 14.25 percent should be allowed.

This recommendation is based on an assessment of the business, financial and investment risks associated with WKP. Business risk is related to the income earning potential of the business, i.e., the use of its physical assets. Financial risk is related to the way in which the company's assets are financed; the greater the proportion of debt in the capital structure the greater the financial risk. Investment risk is the combination of business and financial risk and is the risk assessed by investors in the securities market. The perceived investment risk associated with a particular company is reflected in the ranking given its shares by share rating services.

The witness testified that a company's capital structure should reflect the types and amounts of business risk to which it is subject. The greater the degree of business risk faced by the utility, the larger is the appropriate portion of equity in the capital structure. However, such increases in equity act to reduce financial risk which may assist in lowering the overall investment risk perceived by investors. In general, greater levels of equity are associated with lower levels of return on equity.

8.2 Capital Structure

Dr. Evans testified that WKP faces greater business risk than highest quality lowest risk utilities and therefore should be allowed a greater portion of equity in its capital structure.

His assessment of WKP's business risk is two-fold. First, five specific business risks to which WKP is subject were identified and discussed (Exhibit 7). These are:

(i) risks associated with the cost of purchased power;

(ii) risks associated with changes in the customer base;

(iii) risks associated with construction plans;

(iv) risks associated with changes in general economic circumstances, i.e. inflation and interest rate changes, risk of recession; and

(v) regulatory risks.

However, aside from minor comparative comments regarding WKP's business risk vis-a-vis other utilities, no conclusions were drawn regarding the relative business risk of WKP and other utilities from this analysis.
Instead, WKP's composite business risk was ascertained by comparing WKP's investment and financial risk with that of other utilities and determining business risk as a residual. WKP's senior debt has received a bond rating of "A (Low)" from the Dominion Bond Rating Service ("DBRS") which is a lower rating than the "AA" rating received by some other Canadian utilities, particularly TransAlta Utilities Ltd ("TransAlta") which Dr. Evans characterizes as being a utility of highest quality and lowest risk. These ratings reflect an independent assessment by capital market analysts of the riskiness of the individual bond issues. All "A-" or higher rated bonds are known as investment grade bonds and imply a high degree of reliability that the issuing company will be able to meet principal and interest

obligations. Since these other utilities have a higher bond rating than WKP, Dr. Evans concludes that they would also receive a better share rating if WKP's shares were rated. Since share ratings measure investment risk, the witness testified that in his opinion, WKP is of greater investment risk than the other utilities.

However, WKP's current interest and fixed charge coverage ratios, i.e. the amount earnings before interest and taxes cover interest charges and all fixed charges including preferred share dividends, are high in comparison with these other utilities. Specifically, WKP estimates that its fixed charge coverage ratio in 1991 will be 2.9 compared with 1989 fixed charge coverage ratios for TransAlta and Canadian Utilities Ltd. of 2.0 and 2.1 respectively (Exhibit 7, page 12). These levels indicate that WKP is expected to be well able to cover its fixed charges so that the WKP investor faces lower financial risk than do investors in the other utilities. Since WKP's overall investment risk is assumed to be greater but its financial risk is lower, the witness concluded that WKP is subject to greater business risk than the other highest quality, lowest risk utilities.

The evidence presented showed that the comparison utilities have common equity ratios in the range of 36.7 percent to 44.3 percent. Since greater business risk justifies a greater portion of common equity, Dr. Evans testifies that WKP should have a common equity ratio in the range of 40 percent to 45 percent. Based on WKP's 1990 rate base of $154.8 million and a rate of return on equity of 13.75 percent, a five percentage point difference in the equity component translates into approximately $200,000 of revenue requirement on a tax adjusted basis.

However, since WKP's current spot equity ratio and the forecast equity ratios for 1991 and 1992 are in excess of his recommendation, and justified by the utility on the grounds that greater equity will ease financing of the expected capital expenditure program (T 216, also T 574), Dr. Evans reduces his recommended return on equity ("ROE") by 25 basis points. This is based on the assumption that 25 basis points is approximately equal to an upgrade in WKP's bond rating of one category.

8.3 Return on Equity ("ROE")

Three different methods are used to ascertain the appropriate rate of return on common equity. These are:

(i) the Comparable Earnings Method;

(ii) the Discounted Cash Flow ("DCF") or "Dividend Yield and Growth" method; and

(iii) the Risk Premium Method.

The first two methods calculate the ROE by reference to a selected group of non-regulated companies of similar risk to the utility. The third method does not rely on reference groups.

The primary reference group consisted of 12 non-regulated companies determined to be of similar risk to the highest quality, lowest risk utilities. A sub-group, consisting of 11 non-resource companies, was also used to measure ROE in order to test sensitivity to the variable earnings of resource companies. The companies were picked on the basis of stock rankings and three statistical measures of risk. Common equity ratios were used to measure financial risk; the coefficient of variation in pretax/pre-interest return was used to measure business risk; while the coefficient of variation in rate of return on book common equity was used to measure investment risk.

However, as indicated above, Dr. Evans suggested that WKP is subject to greater investment risk than the highest quality, lowest risk utilities to which the reference group is comparable. Therefore, he recommended that the ROE measured by reference to the non-regulated companies be increased by 25 basis points for WKP to reflect his assessment of the spread between A+ and A rated bonds.

Based on the three tests, the ROE for the non-regulated reference group was measured as follows:

Comparable Earnings Test:	14.0% - 14.5%
DCF Test	13.4% - 14.2%
Risk Premium Test	13.4% - 14.5%

The downward adjustment of 25 basis points for WKP's thick equity and the 25 basis point upward adjustment to reflect WKP's additional investment risk leaves these values unchanged for the subject utility. Based on the above, the witness testified that an appropriate ROE for WKP would lie in the range of 13.75 percent - 14.25 percent.

8.4 Measurement of Risk

Dr. Evans testified that the reference companies were similar in risk to highest quality, lowest risk utilities such as TransAlta and were less risky than WKP when risk was measured with respect to the three statistical measures of risk outlined above. However a comparison of the common equity ratio, coefficient of variation in pretax, pre-interest return, and coefficient of variation in rate of return on book equity indicated WKP to be of lesser risk than TransAlta and many of the companies included in the reference group based on these statistical measures (T 443 - T 449, T 618 - T 620).

When these anomalies were pointed out, the witness stated that it was also necessary to look at the bond rating received by WKP. He stated that it "defies common sense" (T 542) to expect that WKP, a small company, would ever receive the same bond rating as large companies such as TransAlta and Canadian Utilities (T 453). Although acknowledging that WKP may have access to the broader capital markets through its parent, UtiliCorp, which has promised to provide WKP with equity capital within three months of a request to do so by the Commission and further promised to guarantee the indebtedness of WKP, the witness maintained that it was appropriate to assess WKP on a "stand alone" basis (T 470). The Commission interprets this argument as implying that limited access to capital markets necessitates a higher ROE in the same manner as greater risk. Further it was stated that the mitigation of risk through such measures as deferred accounts, wheeling agreements, was unlikely to positively influence the bond ratings assigned to WKP or reduce the required ROE since all of these factors had been considered in assessing the required ROE (T 545).

On reviewing the evidence the Commission considers that Dr. Evans was too pessimistic in his assessment of WKP. His reluctance to accept a favourable risk rating appears to be linked to his feelings that WKP is a small company, and must be regarded as a "stand alone" entity in the capital markets. However, WKP is not a small company by British Columbia standards. The Commission notes that WKP has an asset base of approximately $155 million while UtiliCorp's assets are valued at $1.5 billion. Furthermore, the Commission does not agree that WKP must be assessed on a "stand alone" basis. To do so defies the actual facts and would ascribe no advantage to the financial strength of WKP's parent, or its commitment to support its subsidiary. There are advantages to WKP of ownership by UtiliCorp and this is one of them. Therefore, the Commission is inclined to put more weight on the Company's favourable bond rating and its risk as measured by Dr. Evans' own standards than his conclusions suggest.

8.5 Interest Rate Forecast

In undertaking the three tests to determine the required ROE, it is necessary to forecast interest rates for the period covered by the rate application. Dr. Evans admitted that a recession would most likely force interest rates down from current levels; however, he testified that this would have only limited impact on the required ROE since the ROE should reflect investors' present expectations with respect to future interest rates rather than what actually occurs. In his view, this is the basis on which investment decisions are made (T 585). Nevertheless the Commission considers that recognition must be given to the fact that investors' optimistic expectations are not always met, especially in times of economic down turn, and Dr. Evans' testimony must be tempered by this reality. For this Application, the witness determined investors' interest rate expectations to be the consensus forecast prepared by Central Trust.

During the hearing there was discussion concerning the possibility of devising a mechanism which would link the utility's cost of equity capital to interest rate changes in order to reduce some of the uncertainty associated with long term forecasts of the cost of capital. Dr. Evans testified that such a mechanism might be sensible since it could act to reduce the risk facing the utility and thus lower the overall cost of capital by as much as one-eighth of one percentage point (T 615). However, the witness cautioned that there is not necessarily a one for one relationship between movements in interest rates and movements in common equity costs. Differential tax treatment of capital gains, dividends and interest result in a tendency for the risk premium (i.e. the difference between equity and debt costs), to shrink as interest rates rise and for the risk premium to expand as interest rates fall. Therefore a one percent increase in interest rates would result in an increase in common equity costs of approximately 50 to 75 basis points while a one percentage point decrease in interest rates would result in 50 to 75 basis points decrease in common equity costs.

Second, he testified that it was important to gear such a mechanism to investor expectations, rather than actual interest rate levels, which may fluctuate more widely than expectations do.

In the Commission's view, a significant component of the cost of capital during periods of interest rate instability is the perception that interest rates may rise or fall in an unanticipated manner. This is particularly true of the 1992 test year where it may be argued that a quarterly or semi-annual adjustment to reflect changed investor expectations with respect to interest rates should be made.

8.6 Trade-offs Between Common Equity Ratios and the ROE

The dollar amount which shareholders are allowed to earn on their investment reflects the portion of common equity in the rate structure and the percentage return on equity. Dr. Evans testified that if the common equity portion of the capital structure were reduced from the levels estimated by WKP then the return on equity would need to be increased. In addition, he stated that the cost of new debt to replace the decreased equity would increase as new debt increased.

At a 42 percent equity level, Dr. Evans stated that the cost of new debt would be in the order of 12.12 percent (T 465) while the required ROE would be 14.25 percent (T 605) which is the upper limit of his recommended range.

8.7 Previous Decisions

During the course of the hearing, it became apparent that two previous Commission decisions were important in considering WKP's proposed common equity ratio. In 1987, the Commission approved the acquisition of WKP by UtiliCorp United Inc. As part of the conditions for approval UtiliCorp agreed to the following terms:

> "4. UtiliCorp United and UtiliCorp B.C. will provide WKPL with whatever form of financial support is necessary to allow WKPL to obtain the full benefit of UtiliCorp B.C. and UtiliCorp United's financing ability, including without limitation, guaranteeing the indebtedness of WKPL and providing the full faith and credit of UtiliCorp and UtiliCorp B.C.
>
> 6. WKPL will reduce its dividend payouts to 44 percent of its earnings for the next five years.
>
> 8. UtiliCorp United and UtiliCorp B.C. will cause WKPL to maintain an efficient capital structure satisfactory to the Commission and UtiliCorp United or UtiliCorp B.C. will contribute equity within three months of any request by the Commission to achieve or maintain the required capital structure. If UtiliCorp United or UtiliCorp B.C. are unable or unwilling to contribute the required equity themselves, they will, without delay, cause WKPL, and WKPL will use its best efforts, to make an offering of and to issue, equity securities to Canadian investors."
>
> Commission Order No. G-31-87

In its 1989 revenue requirement application, WKP asked for a common equity ratio of 42.4 percent which gave rise to an interest coverage ratio of 2.5 to 2.9. In making this request, WKP argued that it was necessary to assure the utility the ability to borrow funds as needed. Although the Commission was concerned about the relatively high level of equity and the high interest coverage ratio, it allowed the Application but expressed the view that WKP should strive to lower the common equity component of its capital structure and reduce the interest coverage ratio to 2.4. This decision was supported by WKP's five year financial plan which showed the equity ratio declining to 38.4 percent by 1992 and 34.5 percent by 1993 as a result of forecasted increases in debt levels to finance proposed capital expenditures.

The current application is not consistent with the 1989 revenue requirements decision. Indeed, the current level of equity is in excess of the 42.4 percent allowed in 1989 while future equity and interest coverage levels are forecast to increase to 44.8 percent in 1990 and 46.4 percent in 1991 and 1992. In closing summation, WKP argued that these increases are a result of the UtiliCorp decision which restricts the dividend payout to 44 percent of earnings. Earnings not paid out remain in the capital structure as retained earnings and increase the equity component.

As a result, WKP argued that the Commission's ability to deem a smaller common equity component for the utility was restricted. Specifically, the company argued that deeming a capital structure would effectively reduce the level of return on the "excess" portion of equity to an after tax rate of return of 7.1 percent. Since WKP's investors would be unable to pull out the excess equity capital as a result of the restriction on dividend payout to 44 percent of earnings and re-invest it in ventures providing a higher rate of return, WKP argued that the resulting rates would be inconsistent with the Commission's obligation to determine just and reasonable rates which include a fair return on capital (T 1550, 1552). As a result, WKP argued that the Commission is precluded from deeming a capital structure in these circumstances. The Commission notes that under the 1987 order the last year in which the restriction upon dividend payout will have effect is 1992.

8.8 Commission Decision

8.8.1 **Capital Structure**

The Commission has reviewed the evidence presented to it concerning the appropriate capital structure for WKP, including the capital structures of other utility companies in Canada (Exhibit 7, Page 11) and their interest coverage ratios (Exhibit 7, Page 12). The Commission accepts the view that a higher equity component may be required, from time to time, in order to ease financing of expected capital expenditures and that this may result in a sawtooth pattern in the common equity component of the capital structure over time. While the Commission remains generally of the view expressed in the 1989 Decision that WKP should strive to reduce the common equity portion in its capital structure, it also accepts the pragmatism of the Company's argument that it would make little sense to pay out special dividends now to reach some nominal ratio, only to have to seek further equity financing in the near future to fund imminent plant additions.

However, the Commission is of the opinion that the recommended common equity component of 40 - 45 percent is not justified by WKP's business risk. By Dr. Evans' own admission, the ratings given a company's bonds and shares by rating agencies reflect the size and the access of the company to capital markets in addition to financial and business risk. Therefore, the Commission is of the view that the method Dr. Evans employed to measure business risk may capture other factors as well, leading to an over-estimation of business risk and giving rise to a capital structure inappropriately weighted towards equity. Although the Commission believes that access to capital markets should be considered by the Commission, it believes that access is more properly accounted for in the allowed ROE.

The Commission recognizes that there is an interplay between the allowed capital structure and the allowed ROE. Therefore the Commission accepts the equity comp nent for which the utility applied but has increased Dr. Evans' adjustment for excess equity from 25 to 50 basis points. This adjustment is reflected in sub-section 8.8.2.

8.8.2 **Return on Equity**

Based on the evidence presented directly and through cross-examination, the Commission is of the view that the statistical measures of risk presented by the Applicant do not clearly indicate that WKP is of greater investment risk than the highest quality, lowest risk utilities. Further, although as indicated above, the Commission accepts that access to capital markets is an important determinant in assessing the appropriate ROE, it is the Commission's view that the undertaking given by UtiliCorp to provide equity capital to WKP upon three months notice from the Commission, should be considered in assessing WKP's access to capital markets.

Therefore the Commission does not accept WKP's argument that the ROE measured by reference to the non-regulated companies be increased by 25 basis points for WKP because of restricted access to capital markets.

The Commission finds WKP should be allowed the opportunity to earn a return of approximately 13.5 percent, within the range of 13.25 percent to 13.75 percent, on a common equity component of 46.4 percent.

9.0 OTHER MATTERS

9.1 Connection Fees - Schedule 80

The Applicant, by letter dated August 13, 1990, submitted for approval by the Commission, a revised schedule of standard charges. The Applicant states that the revised charges have been developed "in line with previous submissions to the Commission and were last revised effective September 24, 1987". The increased charges, if approved are estimated to provide additional revenue of $62,000.

The current and proposed charges are as follows:

Charge for Service*	Current	Proposed
Normal Hours		
Meter Connection	23.00	27.00
Meter Reading		
Overtime Hours		
Meter Connection	45.00	55.00
Meter Reading		
Call-0ut Hours		
Meter Connection		
Meter Reading	120.00	120.00
Temporary Drop less than 300 metres	100.00	120.00
Disconnect/Reconnect	45.00	50.00
Relocation/Upgrading	105.00	120.00
Returned Cheque Charge	10.00	16.00

* See Schedule 80

The Commission has reviewed the prop sed charges, the composition thereof, and approves the schedules as proposed except for connection fees for residential electric space heating for new installations (Section 5.3). WKP is directed to make the amendments as required and refile Schedule 80. The Commission would encourage the Applicant to review these charges and any similar charges annually to ensure they are current.

9.2 Commercial Rate (Schedules 20 & 21)

It is apparent from the evidence that the Applicant's general service rate, which affects approximately 7,000 customers, is significantly higher than the residential rate offered by WKP. The general service rate provides a p sitive margin of 5 to 8 mills, whereas the residential space heating rate at average consumption levels has a negative margin of 15 mills or 1.5 cents/kW.h during certain months of the year. A comparison of the WKP residential and commercial monthly cost is set forth in Exhibit 68. Exclusive of provincial sales tax, the comparison is as follows:

		Monthly Cost $		
Consumption	Year	Residential	Commercial	Percent
1,000 kW.h per month	1990	36.63	79.90	218
	1991	38.68	84.37	218
	1992	40.58	88.51	218
5,000 kW.h per month	1990	147.84	271.83	184
	1991	156.12	287.05	184
	1992	163.77	301.12	184
10,000 kW.h per month	1990	286.84	485.15	169
	1991	302.91	512.32	169
	1992	317.75	537.42	169

In Exhibit 26 (Appendix F) filed by Mr. George, it is apparent that WKP's commercial rates in relationship to its residential rates are significantly higher than the other utilities shown. It is interesting to note that the two extremes are both in British Columbia with B.C. Hydro being slightly lower than Alberta Power and WKP being clearly the highest in Canada per Exhibit 26.

In Exhibit 23, a comparison of general service rates, it is apparent that a significant number of WKP's commercial customers are paying rates in excess of the equivalent rates available from B.C. Hydro.

INSERT EXHIBIT 23
GRAPH - GENERAL SERVICE
RATE COMPARISON

At T 1361 the Applicant stated "Well, I guess by implication, since we applied to lower their over-collection, that we didn't think the rate was fair, just and reasonable as it stood".

The current Tariff energy rate structure (monthly) is:

First 50 kW.h	$6.59
Next 950 kW.h	7.279¢ per kW.h
Next 7,000 kW.h	4.548¢ per kW.h
Next 20,000 kW.h	3.288¢ per kW.h
Next 72,000 kW.h	2.868¢ per kW.h
Balance	2.027¢ per kW.h

While an across-the-board decrease to the class could be applied, it would send the wrong price signal, since overall revenue requirements are increasing. Much greater benefits could be achieved by reducing the rate in the 950 kW.h block. For example, each one cent reduction in this second energy block would produce monthly savings of about 12.5 percent at the small (1,000 kW.h/month) commercial consumption level.

The Commission generally believes that a redesign of rates should be done in a comprehensive manner as opposed to an "ad hoc" basis. However, in these circumstances the Commission believes an initiative is required to at least narrow the differential, and accordingly directs the Applicant to apply any savings in revenue deficiencies to reduce the rate in the second energy block of Rate Schedules 20, Small General Service and 21, General Service, effective January 1, 1991.

9.3 Residential Space Heating - Schedule 4

With regard to the negative margin being incurred by the existing residential heating customer, the Commission believes that new initiatives must be considered. The initiatives with regard to the existing customers should be directed to reducing the negative margin through modest rate adjustments over time combined with an aggressive DSM program to shield the customer from the impact of those increases on the monthly bill. If this can be achieved, this will reduce or eliminate the burden on the other customers hence preserving a block of low cost resource for all customers. In addition to the amended connection charge directed on page 18 of this Decision, which is intended to recover the full cost and other related charges, new tariff rates should be developed by July 1, 1991. The process should include effective public consultation with interested parties, and should have the objective of removing the negative margin referred to above.

While the Commission believes that electric space heating should generally be discouraged in these circumstances, it recognizes that fair consideration must be given to existing installations and designs already committed by customers. Special circumstances may also exist in rural areas where other heating alternatives are not readily available. Rate closure may be an appropriate course of action however, consideration must be given to both the effective closure date and special circumstances. With regard to timing, sufficient notice must be given to permit existing construction plans to be completed. Special provisions must be made in the terms of "closure" to ensure the closed rate flows with the facility rather than the tenant or owner.

10.0 DECISION

WKP is ordered to file tariffs which confirm the existing interim increase of 5.5 percent for 1990 and to file tariffs for 1991 incorporating an increase of 5.0 percent to all customer classes, and to apply the 1991 commercial rate allocation to reduce the rate in the second energy block of Rate Schedules 20, Small General Service and 21, General Service, effective January 1, 1991. The directed reduction in the second energy block in Rate Schedules 20 and 21 will result in a net decrease in bills at the lower levels of consumption and will reduce the increase to these customers from what it would have otherwise been for all levels of consumption.

With regard to fiscal 1992, the third year of the Application, the Commission believes too many uncertainties exist for new rates to be set. The Applicant's policy witness and financial witness both had reservations (T 126, T 610, T 827) and these concerns are reinforced when Exhibit 21 is reviewed indicating a change of over $8 million dollars between forecasts made in 1988 and 1990. Accordingly the Commission declines to set rates as requested by the Applicant for 1992. If higher levels of forecasting accuracy can be achieved in the future the Commission would encourage the Applicant to apply for a three year test period.

In the 1986 Decision and the 1989 Decision, the matter of hearing costs was addressed. At page 39 of the 1989 Decision, the Commission stated:

> "With regard to the disposition of the Applicant's and Commission's costs in this proceeding, the Commission raised the matter in the 1986 hearing by directing the Applicant to consider it in this hearing.
>
> In considering the appropriate disposition of the costs, the Commission, amongst other matters, has considered the fairness of the full recovery of the Applicant's costs while Intervenors cannot recover their costs, as well as financial incentives to further encourage expeditious hearings and the concomitant cost reductions. Accordingly, the Commission believes that an allocation of the costs should be made on the basis of what was sought by the Applicant as opposed to what was achieved.
>
> In this proceeding the Applicant should recover its entire costs from the rate payers over a one-year period commencing January 1, 1989."

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In this proceeding, the Application as amended, sought an increase of 5.5 percent for 1990 and 5.6 percent for 1991 for a cumulative increase of 11.4 percent to the end of 1991. In relation to this the Commission has approved an increase of 5.5 percent for 1990 and an effective increase of 4.2 percent for 1991 for a cumulative increase of 9.9 percent to the end of 1991. Accordingly the hearing costs to be recovered from the customers has been adjusted downward by approximately $34,000. The Commission considered whether or not an adjustment should be made with regard to 1992 and decided that in these circumstances it was not.

The Applicant is instructed to carry out the directions herein.

DATED at the City of Vancouver, in the Province of British Columbia this day of December, 1990.

J.D.V. NEWLANDS, Deputy Chairman

N. MARTIN, Commissioner

H.J. PAGE, Commissioner

IN THE MATTER OF the Utilities Commission
Act, S.B.C. 1980, c. 60, as amended

and

IN THE MATTER OF an Application by
West Kootenay Power Ltd.

BEFORE:	J.D.V. Newlands,	)	
	Deputy Chairman and	)	
	Chairman of the Division;	)	
	N. Martin,	)	December 20, 1990
	Commissioner; and	)	
	H.J. Page,	)	
	Commissioner	)	

O R D E R

WHEREAS:

A. On October 22, 1990 a public hearing commenced at Rossland, B.C. into West Kootenay Power Ltd.'s, ("WKP") November 30, 1989 general rate application as amended September 7, 1990; and

B. Commission Order No. G-67-89 granted WKP an interim, refundable rate increase of 6.9 percent which was reduced on June 8, 1990 to 5.5 percent by Order No. G-47-90 effective January 1, 1990; and

C. The Commission has considered the Application and the evidence adduced thereon, all as set forth in the Decision issued concurrently with this Order.

NOW THEREFORE the Commission hereby orders West Kootenay Power Ltd. as follows:

1. The Rate Base and Revenue Requirement for the Test Years ended December 31, 1990 and December 31, 1991 are as set out in Schedules contained in the Decision.

2. WKP is ordered to file tariffs which confirm the existing interim of 5.5 percent for 1990 and to file tariffs for 1991 incorporating an increase of 5.0 percent to all customer classes, and to apply the 1991 commercial rate allocation to reduce the rate in the second energy block of Rate Schedule 20, Small General Service and 21, General Service, effective January 1, 1991.

3. The Commission declines to set rates as requested by Applicant for 1992.

4. West Kootenay Power Ltd. will comply with the several directions incorporated in the Commission Decision.

. . ./2

5. West Kootenay Power Ltd. will file a rate and revenue requirement reconciliation for 1991.

DATED at the City of Vancouver, in the Province of British Columbia, this day of December, 1990.

BY ORDER

J.D.V. Newlands
Deputy Chairman and
Chairman of the Division

/ssc
BCUC/Orders/WKP/Confirm Interim Rates

Summary of Commission Directions

Section No.	Direction
4.0	Thus, the Commission directs the Company to study specific load changes, by rate classes, in order to better understand the effect of load curtailment and growth at the margin. The purpose of such a study is to identify the sources of negative contribution margin and to target changes in rate design or DSM that will alleviate this anomaly.
5.2	The Commission believes that further investigation of proposals put forward by Commission Counsel during the hearing is warranted, and therefore directs the Company to evaluate these alternatives and report prior to making further significant expenditures on the Vaseaux Lake substation.
5.2	It is to the benefit of WKP and its customers if WKP can place itself in a more advantageous position with regard to resource acquisition. Accordingly, WKP is directed to report quarterly to the Commission on its initiatives and its success in pursuing these.
5.3	The Commission explored with the Applicant, (T 1479), the potential for increasing supply from Cominco through a WKP-sponsored DSM program designed expressly for that company's industrial enterprise. The Applicant indicated that such a program has been considered and that WKP will report to the Commission on the status of that effort. WKP is directed to provide that report by July 1, 1991. If successful, this program would assist Cominco by lowering its costs while, at the same time, increasing the energy available to the Applicant.
5.3	The Commission directs WKP to modify its proposed connection fees in its Tariff Schedule 80 so that new installations of residential space heating will pay the full cost of the connection and other related costs. Additional revenue generated from the new connection fee is to be held in a deferral account pending disposition upon application to the Commission.
5.3	The Commission directs WKP to reassess its DSM targets recognizing that now and for the foreseeable future, this resource is its least-cost, most flexible and most environmentally benign source of power. The challenge to meet both load growth and diminished supply from Cominco with the DSM resource is one that must be aggressively addressed by WKP.
6.1	The Commission directs WKP to reappraise its collection lag after the prestamped envelope has had sufficient time to cause an impact, and in the interval to keep the collection lag forecast unchanged. A downward adjustment to the allowance for working capital of $534,000 is required. If it turns out that the prestamped envelope is itself causing a significant net increase in the utility's costs then the customers should be made aware of the impact of this on their rates and canvassed again as to whether or not they wish this program to continue.

Summary of Commission Directions

Section No.	Direction
6.2	The Commission directs that the costs of the Gas Turbine should remain in deferred charges, without amortization and carried in Rate Base until final disposition of the project.
6.2	Items i and ii both refer to the treatment of revenue from the sale of surplus take-or-pay energy in the October-September operating period. For greater certainty, the Commission directs that revenue and costs associated with surplus in the 1991 power purchase year shall not impact on fiscal 1990, but shall be deferred to 1991.
6.2	The Commission also directs that the Rate Application costs should be written-off over two years.
6.2	WKP proposes to write-off the costs of the "Goodhart, King and Associates" efficiency study over the years 1990 and 1991. The Commission directs that the costs be written off in 1990.
7.4	The Company is directed to conduct, and report on to the Commission, a critical review of forecast loads at Big White, together with alternatives for serving it; alternatives which would leave the Company less exposed financially in the event that the developer's expectations are delayed in realization. This may even entail a form of security from the developer.
9.1	The Commission has reviewed the proposed charges, the composition thereof, and approves the schedules as proposed except for connection fees for residential electric space heating for new installations (Section 5.3). WKP is directed to make the amendments as required and refile Schedule 80. The Commission would encourage the Applicant to review these charges and any similar charges annually to ensure they are current.
9.2	The Commission generally believes that a redesign of rates should be done in a comprehensive manner as opposed to an "ad hoc" basis. However, in these circumstances the Commission believes an initiative is required to at least narrow the differential,and accordingly directs the Applicant to apply any savings in revenue deficiencies to reduce the rate in the second energy block of Rate Schedules 20, Small General Service and 21, Genreal Service, effective January 1, 1991.
9.3	In addition to the amended connection charge directed on page 18 of this Decision, which is intended to recover the full cost and other related charges, new tariff rates should be developed by July 1, 1991. The process should include effective public consultation with interested parties, and should have the objective of removing the negative margin referred to above.

THE PARTICIPANTS' POSITION SUMMARIES

The following is a brief summary of the positions of the various participants at the recent hearing. The positions are categorized according to the Table of Contents of this Decision. In most cases, the summary is an exact quotation from the participants' arguments.

Please Note: The summary is not intended to be all inclusive but rather to indicate the range of points of view on the matters that the Commission has identified as issues requiring decision at this time. The reader is cautioned that a complete understanding of the position of the participants can only be obtained by reading the entire transcript, argument and an examination of the exhibits. This summary should not be relied upon in lieu of a careful examination of the evidence and argument.

C.1 Sales and Load Forecast

The Consumers' Association of Canada (B.C. Branch) et al ("CAC et al")

- "At this point, West Kootenay Power has incentive to forecast high. This was clear from Mr. Rice's examination of panel one at page 829 of the transcript. If West Kootenay Power over forecasts sales and doesn't meet the forecast, then they make money...Now, Mr. Bauman clarified that this held true with respect to industrials and wholesale customers, notwithstanding the picture presented in Exhibit 80." (T 1622, 1623)

- "In a nutshell, the service area is headed for a recession, or it's there already, and in our submission, the rates should be adjusted to reflect a reduction in the load forecast which is consistent with the evidence adduced in this hearing." (T 1623)

Municipal Wholesale Customers and Celgar Pulp Company ("Municipals and Celgar")

- "Another anomaly of West Kootenay's current position is that because of the negative margin West Kootenay actually does better if it over estimates its forecast sales, and you sort of have to turn your mind around when you look at that phenomena in the context of this utility, because it's not something you normally expect. This phenomenon is very clearly raised by Mr. Rice's cross-examination of panel 1 at transcript Volume 5, page 829. It was confused initially by Exhibit 80, but I think the questions we asked on clarification of that exhibit tend to show that with the sale -- lower sales to Celgar or the wholesale customers, for example, or even the residentials of West Kootenay, the phenomenon then takes place. It's only if the general service customers are thrown in that Exhibit 80 might have some credibility." (T 1591)

- "Overall we suggest that the Commission apply an overall percentage decrease to West Kootenay's forecast sales and reflect that decrease in the power purchase and wheeling expense forecast for the application." (T 1593)

Regional District of Central Kootenay ("Central Kootenay") (Exhibit #15)

- Load growth is mainly in the Okanagan, causing higher costs for the whole service area. (T 109)

- Rates should be determined on a region by region basis. (T 119)

City of Rossland (Exhibit 29)

- "WKP retails the power here in the West Kootenays, but wholesales it to the Okanagan for their retail by local utilities, and therefore the profits generated from retail sales in the Okanagan go to the municipal systems and not to WKP. This increase in demand has been greater in the Okanagan than in the West Kootenays, therefore, the Commission should be instructing the Okanagan to pay a proportionately larger share of the costs of purchasing the more expensive B.C. Hydro power, plus the costs of transmitting WKP's power to the Okanagan." (T 475)

Kootenay/Okanagan Electric Consumers Association ("ECA")

- "The upcoming recession will likely cause West Kootenay Power's forecast of system growth in all sectors, including residential, to look too optimistic." (T 1647)

C.2 Strategic Planning

CAC et al

- "West Kootenay Power ought not to be allowed rate increases which allow it generous inflationary increases in operating and capital expenses, which allow it to turn up the tap in upgrading or augmenting its physical plant and so on. We are not comforted by the rationale that B.C. Hydro ratepayers are charged more." (T 1609)

- "Looking at the lack of the strategic planning process, the record indicates that between 1990 and 1992, West Kootenay Power is planning to make capital expenditures of some $73 million." (T 1610)

- "But looking at West Kootenay Power's long-term planning, how can we have confidence in the short-term plan? Both have been done without the benefit of a clear, strategic planning process. Essentially, there does not appear to be any serious planning beyond a five year time frame." (T 1610)

- "Expansion must take place in the context of a systematic planning process." (T 1611)

- More resources devoted to transmission system planning than to DSM. (T 1611)

- "Now, at page 331 Mr. Ash admitted that the 3.4 percent goal in 1999 did not constitute an aggressive figure for demand side management. Yet the Commission asked for aggressive action, and said in the last decision that the reduction of the negative margin was sufficient motivation to achieve this result." (T 1614)

- "And as Mr. McKay said at page 961, West Kootenay Power's involvement in monitoring and evaluating energy management, quote, he says, 'We have begun some detailed analysis of the savings that we should achieve from the programs we've got in place. The area on demand side management is somewhat in its infancy.'" (T 1614)

- "Now, looking at the 40 large volume industrial and general service customers, Mr. Parent agreed, at page 1138, that West Kootenay Power could custom design energy management programs for each one,..." (T 1618)

- 1993 could be next DSM public review. (T1619)

- "In our submission the Commission should not grant West Kootenay Power a rate which permits it to either maintain a timid demand side management program or to let the shareholders scoop windfall profits gained when additional demand side management, which is clearly possible, is actually achieved and where this demand-side management reduces the negative margin that West Kootenay Power is now seeking a rate increase to cover." (T 1619)

- "I submit that West Kootenay Power's continued separate existence ought to be contingent on it maximizing demand side management in its least cost strategy. It should become the flag ship utility on demand side management." (T 1620)

- " You have the authority to establish a quantifiable level of energy efficiency that West Kootenay Power must achieve." (T 1620)

- "...I would also ask the Commission to provide a direction to West Kootenay Power that it work closely with B.C. Hydro on energy management, and this direction could be extended to B.C. Hydro." (T 1621)

- "I would ask that you would consider the addition of an environmental premium so that on the balance demand side management or any form of resource management, which is environmentally benign or environmentally positive, may tip the scale if it is close to the avoided cost or the marginal cost." (T 1631)

- "I would ask for a direction, a firm direction, a mandatory direction on demand side management with stated targets or quotas." (T 1632)

Municipals and Celgar

- "West Kootenay's strategic planning is the first issue, and in our submission, the most important." (T 1565)
- "We're seeing costs rise significantly with revenue only going up marginally. I believe that same reference indicates that we're seeing a $6.5 million rise in costs versus a $2.4 million rise in revenue, and it takes no rocket scientist to conclude that this can't go on forever." (T 1563)
- "We discuss in the record West Kootenay's negative margin on new sales and the depths of the utilities malaise are readily apparent." (T 1564)
- WKP needs a jump start for the 90's. (T 1564)
- WKP is drifting without an apparent sense of direction. (T 1565)
- "West Kootenay's demand side management programs are clearly critical, under the heading of Load Resource Management. They represent an inexpensive and realistic method by which to forestall B.C. Hydro purchases and other supply side projects." (T 1573)
- Took too long to resolve matter of wholesale customers' participation in DSM. (T 1574)
- "Witness the critical issues that must be resolved before long-term nominations are made in May of 1991. 1. The B.C. Hydro long-term price; 2, the gas turbine/future resource issue; 3. Cominco's ability to wheel to Highland Valley; 4. West Kootenay's ability to re-sell, store take or pay electricity." (T 1575)
- Get on with meeting the challenge of avoiding cross-over with B.C. Hydro. (T 1576)

ECA

- "So given all that information, the planning that West Kootenay Power is undertaking even now, because it is after all forecasting up to the turn of the century, it should include the eventual loss of some or all of its wholesale customer loads." (T 1674)

David George

- "To be fair to West Kootenay Power, it is since its takeover indeed between a rock and several hard places." (T 1600)

- "Since West Kootenay does not know what B.C. Hydro's rate design will bring, or how much energy Cominco will really be able to make available, how can it possibly nominate power requirements from B.C. Hydro at all?" (T 1601)

- Rate change higher than inflation causes inflation. (T 1601)

- "...the Commission strongly urge West Kootenay to continue to expand this demand side management program and maintain it at levels and goals not below those of B.C. Hydro's demand side management programs. I also endorse West Kootenay's plan to report at least annually to the Commission on the progress of the demand side management programs." (T 1603)

C.3 Cost of Service

CAC et al

- 1992 costs are just 1991 plus a %. Not a zero based budget for 1992. (T 1624)

- A $500, 000 saving in 1990 equals 0.5% off rates. (T 1625)

- "Again I submit, the belt tightening must start now, because West Kootenay Power ratepayers will be doing that very thing for the next two years." (T 1625)

- "It is easy to pad the operating and maintenance budget because for the most part there are smaller amounts that don't seem worth pursuing, but it all adds up to big numbers. I submit that West Kootenay Power should stay lean and mean..." (T 1626)

Municipals and Celgar

- "...we see operating and maintenance costs up modestly, but they don't appear to be a serious culprit for the rate increase, which is unfortunate, because that's something we can require the utility to effectively police. That is police waste and inefficiency." (T 1564)

- Commission should force a satisfactory resolution of the on-going price dispute with B.C. Hydro. (T 1566)

- "...it is unfair to subject the ratepayers of West Kootenay to such losses on take or pay when B.C. Hydro appears to still project a surplus for the remainder of this decade. And again, we invite the Commission to revisit this issue and reconsider, at the behest of West Kootenay or otherwise, the 90 percent take or pay provision in the B.C. Hydro - West Kootenay rate structure." (T 1567)

- "If the B.C. Hydro rate to West Kootenay must be determined only in the context of a B.C. Hydro rate design hearing, we invite the Commission to appropriately amend the requirement that West Kootenay begin ten year nominations this May." (T 1567)

- Pursuit of storage has been less than vigorous. (T 1568)

- "WKP has not aggressively pursued the possibility of purchases from out of province utilities, notably Canadian Utilities." (T 1568)

- "Poor forecasting by Cominco has caused WKP to have an excess of expensive B.C. Hydro power." (T 1569)

- "If the forecasting provisions of the Sale of Surplus Power Agreement are not properly reflecting the intent of the Exemption Order, or Cominco is not properly administering those provisions, this Commission on WKP's Application should exercise its jurisdiction over Cominco under Part VII of the Utilities Commission Act (Section 86)." (T 1570)

- The level of uncertainty, regarding the amounts of purchased power from different sources, results in higher cost to the customer. (T 1571)

- "Load growth apparently does not appear to justify significant growth in personnel, and we listened with interest to Commissioner Page's questions on this issue to the detail panel." (T 1593)

- The 1992 increase in B.C. Hydro rates of 1.5 percent should be eliminated. (T 1594)

ECA

- WKP and BCH have behaved like a couple of squabbly children and there doesn't seem to be anybody forcing them to seriously bargain in good faith... (T 1675)

David George

- Ask the Commission to direct WKP to make further efforts to achieve a negotiated or arbitrated out of court settlement with Cominco in the matter of the Highland Valley Copper dispute. (T 1600)

- "Exhibit 81 clearly shows that one of the C.E.A.'s stated objectives is lobbying. I ask the Commission, therefore, to remove the C.E.A. dues expense from the rate base for this and all future years." (T 1600)

Dr. J. Miltimore

- The Goodhart King study was contracted without competitive bidding. (T 1636)

- The study on Chute Lake by Monenco was a wasted effort. (T 1638)

C.4 Rate Base

CAC et al

- Rate base increase causes one-third of rate increase. (T 1610)

- System is performing at or better than CEA standards. (T 1611)

- "The company cannot have its wish list of projects funded at a time when everyone else is battening down the hatches. The cost in terms of rate increases is too high." (T 1623)

- Now is the time for applications for Certificates of Public Convenience and Necessity (Section 51) for major transmission projects. (T 1628)

Municipals and Celgar

- "If it were possible to close the (Okanagan) loop, the estimated net savings between B.C. Hydro and WKP amounts to about 13 megawatts and 44 gigawatt hours, compared to Power Sense savings of 9 megawatts and 33 gigawatt hours by calendar year 1992." (T 1568)

- "We encourage the Applicant to vigorously pursue the study of all other supply side options it has identified in its load resource study. These options may be among the most critical if WKP is to meet its major challenge of keeping its rates meaningfully below B.C. Hydro."
(T 1572)

ECA

- "Exhibit 33, the special capacity offer by B.C. Hydro to West Kootenay Power and the analysis by the Commission, which was in Exhibit 66, shows that B.C. Hydro has an interest in preventing construction of the gas turbine and is willing to propose special terms for power sales to West Kootenay Power to achieve that end." (T 1658)

- "Our position is that avoidance of the turbine should be the goal of serious negotiation between WKP and BCH and that the Commission should ensure both parties negotiate in good faith." (T 1659)

David George

- "The gas turbine is shockingly inefficient. Its 32 percent efficiency compares miserably with the 85 to 90 percent efficiency easily obtainable from a modern hydro-electric project. And the gas turbine service life of only 20 years." (T 1598)

- "A modern natural gas furnace can produce heat with about 92 percent efficiency, and is certainly a more efficient way to utilize natural gas, which is after all a non-renewable resource, than burning that same gas in a 32 percent efficient gas turbine." (T 1599)

- Ask the Commission to direct WKP to present to the Commission within one year detailed plans and a proposal for the increase of generating capacity of the Brilliant and Waneta dams. (T 1599)

C.5 Capital Structure and Return

CAC et al

- Cost to rate payer is enormous...flimsy reasons. (T 1630)

- Gas turbine is uncertain at $70 million. (T 1630)

- "So let UtiliCorp give something back to British Columbians living in the West Kootenay Power service area. All we ask for is a standby, a potential availability so that West Kootenay Power can maintain its equity component at the levels directed by the Commission in its last decision." (T 1630)

- "I would ask for a deemed reduction in the equity component or a significant compensatory reduction in the return on equity in lieu." (T 1632)

Municipals and Celgar

- The last Decision found that a common equity proportion of 42.4 percent was satisfactory at the time, and found that "...the Commission does not believe the common equity component should be edging to higher levels, but as market circumstances permit the Applicant should work expeditiously towards achieving minimum interest coverage ratio of 2.4 as shown in the financial plan for '92/93." (T 1579)

- A common equity ratio of 46.4 percent is therefore imprudent, and a 25 basis pts. reduction in ROE is not appropriate. (T 1580)

- With reference to Exhibits 20 and 28, a 42 percent common equity ratio would result in a revenue requirements savings of $223,000 per year. (T 1580)

- "...UtiliCorp United has confirmed its unqualified undertaking to 'maintain an efficient capital structure for West Kootenay Power and provide equity for that purpose within three months of any request from the BCUC to that end.' That's the UtiliCorp decision, Appendix B." (T 1581)

- Common equity should be 40 percent of capital structure with a 14 percent ROE. (T 1582)

- WKP has assumed extensive use of deferral accounts and pass-throughs via Section 67.4 of the Act, thereby eliminating risk. (T 1583)

- "There's a direct contradiction of Dr Evans' perception of risk for the company, by the company itself in Exhibit 8, tab 1, page 11." (T 1584)

- "There is adequate regulatory precedent, in our submission, for deeming an appropriate common equity ratio for West Kootenay." (T 1585)

- "There remains the question of what the Commission is to do with that excess equity, and we say that there are three possibilities. Deem it as debt at an appropriate return; deem it as preferred shares; or permit an extraordinary dividend to be paid out." (T 1588)

- "Reference has been made to the restrictions on dividend payout imposed by the UtiliCorp decision. Mr. Chairman, we say that it was never the intent, in our submission, of that condition to permit an inefficient capital structure for the utility. If that condition is an impediment to a proper capital structure, this Commission can and should amend it to the extent necessary." (T 1588)

- "I point out as well that UtiliCorp was also required by that decision to maintain an efficient capital structure at all times, and we say that Section 65(4)(c) of the Act is adequate authority, and indeed is the direction to the Commission to ensure that rates are not unjust and unreasonable. We say forcefully, Mr. Chairman, that to allow the utility to maintain this imprudent capital structure, in our submission, makes a farce of the Commission's decision of last year, to allow the utility to hide behind the 44 per cent rule in the UtiliCorp decision makes a farce of the undertaking to maintain an efficient capital structure, and we say, with the greatest of respect, Mr. Chairman, that the customers cannot be made to pay for an inefficient capital structure because of some difficulties in implementing a decision of the Commission." (T 1588)

ECA

- "UtiliCorp of Missouri has made a commitment to provide investment capital that West Kootenay requires within three months, and to use its borrowing power to assist West Kootenay Power in obtaining debt financing at a slightly lower rate." (T 1650)

- WKP will remain well capitalized. (T 1650)

- Present equity level is too high to be efficient; it costs more than is necessary. (T 1651)

- "We believe an efficient equity level would be closer to 35 percent than to the 42 percent that Dr. Evans seemed to adopt. A significantly lower rate of return would be justified to compensate for the present excessive equity ratio and to allow the equity ratio to return to more efficient levels." (T 1652)

- "Now regarding fairness, I would point out that the ratepayers reasonably expect that UtiliCorp's commitments of backing up West Kootenay Power's borrowing and providing capital, should be worth something to the company and worth something to the ratepayers." (T 1652)

- "The 46.4 per cent equity ratio did not arise because of UtiliCorp's three month investment commitment. It arose because of the rate of return available through West Kootenay Power being sufficiently attractive even by comparison to UtiliCorp's average rate of return." (T 1652)

- one percent difference between WKP and Utilicorp* "simply amounts to giving away excess profits to the shareholders." (T 1655) *13.6% WKP; 12.6% Utilicorp (T 1653)

- "We conclude that West Kootenay Power's rate of return is so high that the utility is suffering from over investment in projects of limited benefit to the ratepayers by costing them too much. " (T 1656)

- "The company's strategy seems to be to lock in a very favourable rate of return for three years as a hedge against the likelihood of decreasing interest rates and the recession, while leaving several escape hatches in the event something threatens it." (T 1656)

- If risk is lowered, then ROE should also be lowered. (T 1657)

- The customer should be protected from the utility earning "windfall profits". (T 1657)

C.6 <u>Uncertainties</u>

CAC et al

- "...the utility has indicated that it wants a Commission direction that it will be warmly received if it returns to the Commission before 1993 for further increases caused by reductions in the Cominco supply." (T 1608)

- "Clearly Canada is in a recession. The Kootenay's were hard hit in the last recession, and recovered more slowly than elsewhere in B.C. It's painfully clear, and indeed Mr. Isherwood agreed at page 1017 of the transcript, that the current recession in B.C.'s forest products industry will hurt the service area." (T 1609)

- The benefits of less regulatory lag should cut both ways. (T 1609)

- "And I would say at this point that we do not disagree with the 1992 test year being reviewed by the Commission, but if you allow 1992, in my submission, and it is my request, you must insert strong directions and you must temper the rates so that if West Kootenay Power proceeds with 1992, it does not gain profits where their forecasting has been too high, and where it does not continue to approach demand side management at a crawl." (T 1633)

Municipals and Celgar

- "1992, accordingly, seems very much up in the air, and we're not sure how effective it will be to set a rate for 1992 at this time. However, having said that, we do support the concept of reducing hearing costs where possible, and accordingly and in light of the built in safety nets surrounding the 1992 application, we do not object to its consideration in the context of this hearing." (T 1594)

Central Kootenay

- "We oppose the request for West Kootenay to go for a three year period...One of the reasons why we support the annual application, it gives us, notwithstanding our meagre resources, a chance to have one more kick at the cat, if I may say. It gives the Commission and counsel for the Commission a chance to see if what is being done, what has been proposed is going to continue to be done." (T 67)

ECA

- "At the beginning of this hearing I explained our position that with a recession coming on and energy prices fluctuating strongly because of the trouble in the Middle East, West Kootenay Power's forecasts for appropriate rate of return and load growth would not be reliable enough to allow the Commission to make a decision that would not have to be reconsidered at a later date." (T 1642)

- "If 1992 had not been included, the hearing would doubtless have been shorter and less expensive for the ratepayers, who will no doubt be forced to pay the costs again." (T 1642)

- Commission should have heard the question of how many test years before the case was proposed and set down for hearing. (T 1643)

- Seven reasons why forecasting to 1992 is "too uncertain" (T 1646+)

- "And, secondly, every one of the impacts I outlined has the effect of lessening West Kootenay Power's costs. If the Commission grants a rate increase for 1992, based on West Kootenay Power's forecasts, there is good reason to expect that the ratepayer will simply be paying too much." (T 1648)

- "It would be both prudent, in light of uncertainty about West Kootenay Power's forecasts, and fair, in light of the one-sidedness of the uncertainty, for the Commission to exclude the 1992 year from consideration for a rate increase at this time." (T 1649)

C.7 Other Matters

Municipals and Celgar

- Accounting for Vaseaux Lake land should be left as it was. (T 1594)

David George

- "Even if Dr. Evans was worth a dollar a second in 1989, surely it is a waste to bring him back again in 1990. I ask the Commission to rule that West Kootenay Power may not recover the costs of Dr. Evans from the ratepayers." (T 1602)

- "...commercial customers of West Kootenay Power, in the general service schedules 20 and 21, are paying far more than residential customers for the same amounts of electricity. Indeed, on the average are paying 195 percent of the residential cost." (T 1604)

- "In some cases, commercial customers are right now paying more as West Kootenay customers than they would as B.C. Hydro customers." (T 1604)

- "...a direct rate reduction in GS20 and 21 rate schedules. Another would be to exempt those two rate schedules from any increases granted at this time." (T 1604)

- "The commercial customers need rate relief now. Our rates are not fair, just and reasonable. I ask the Commission to please act now and give us some relief." (T 1604)

APPENDIX "D"

Changes in Account Practice Implicit in
the 1990/1991 and 1992 Rate Application

The Application is predicated on the Commission issuing accounting orders to approve the following assumptions:

1. Gross sales from the sale of surplus take or pay energy purchased and expensed in 1990 is deferred until 1991.

2. Changes in 1991 revenue anticipated from the sale of take or pay energy to be stored with Powerex in 1990 and 1991 shall be deferred until later consideration by the Commission.

3. Property tax expense for 1991 and 1992 that differs from the provision in this Application shall be deferred to a future time period.

4. The interest deferred account remain in place and the rate shall be 11 percent for both 1991 and 1992.

5. Goodhart King study costs be amortized in 1990 and 1991.

6. Gas turbine costs approved by the Commission be amortized over a five year period commencing 1990.

7. Energy management costs to be amortized over a ten year period commencing 1991.

8. Gain on the Goat River plant be amortized over five years commencing 1990.

9. Rate Application costs for the 1990/1991/1992 Application be amortized over three years commencing 1990.

10. Line apprenticeship program costs be amortized over five years commencing 1990.

11. Land purchased for the South Okanagan substation be held in Plant Held for Future Use.

IN THE MATTER OF
the Utilities Commission Act
S.B.C. 1980, c. 60, as amended

and

IN THE MATTER OF
an Application by
West Kootenay Power Ltd.

DECISION

December 20, 1990

J.D.V. Newlands, Deputy Chairman
N. Martin, Commissioner
H.J. Page, Commissioner

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APPEARANCES

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G. JENKINS	City of Rossland
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ALLWEST REPORTING LTD.	Court Reporters and Hearing Officer

LIST OF EXHIBITS

	Exhibit No.
West Kootenay Power Ltd. Rate Application dated November 30, 1989, Volume 1	1
West Kootenay Power Ltd. Rate Application dated December 21, 1989, Volume 2	2
West Kootenay Power Ltd. Rate Application dated February 28, 1990, Volume 3	3
West Kootenay Power Ltd. Rate Application dated May 28, 1990, Volume 4	4
West Kootenay Power Ltd. Rate Application dated September 7, 1990, Volume 5	5
Errata Sheet for Volume 5	5A
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West Kootenay Power Ltd. Rate Application 1990, 1991, 1992 dated September 7, 1990, Volume 6	6
West Kootenay Power Ltd. Rate Application 1990, 1991, 1992 dated September 7, 1990, Volume 7	7
Updates to Robert Evans' Report	7A
West Kootenay Power Ltd. Reply to Request for Additional Information dated October 12, 1990, Volume 8	8
Errata Sheet for Volume 8	8A
1990 - 1995 Financial Plan	8B
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Bulk Transmission System, Volume 1	9
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