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VANCOUVER, B.C. V6Z 2N3
CANADA



BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-134-97

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

and

An Application by Kanelk Transmission Company Limited
for Approval of its Revenue Requirements for 1998 to 2000

BEFORE: K.L. Hall, Commissioner)
P.G. Bradley, Commissioner) December 18, 1997

O R D E R

WHEREAS:

- A. On September 10, 1997, Kanelk Transmission Company Limited ("Kanelk") applied to the Commission for approval to set the Kanelk charges for Wholesale Transmission Services and System Support Services provided by, or through, Kanelk to British Columbia Hydro and Power Authority ("B.C. Hydro") for the years 1998, 1999 and 2000; and
- B. On November 18, 1997, Kanelk advised the Commission that it had been unable to reach agreement with B.C. Hydro on its 1998-2000 Revenue Requirements and requested that the Commission set the matter down for a written public hearing; and
- C. The Commission, by Order No. G-118-97, set the Kanelk 1998-2000 Revenue Requirements application down for a written public hearing and issued a Regulatory Timetable; and
- D. On December 8, 1997, Kanelk advised the Commission that it had reached a Negotiated Settlement with B.C. Hydro and Fording Coal Limited, and provided written confirmation of their support; and
- E. The Commission has reviewed the proposed Settlement Agreement and considers its approval to be in the public interest.

NOW THEREFORE the Commission orders as follows:

- 1. The Commission approves for Kanelk Transmission Company Limited the proposed Settlement Agreement attached as Appendix I to this Order.
- 2. Kanelk is to comply with all the terms and conditions of the Settlement Agreement.
- 3. Kanelk is to file its Electric Tariff Rate Schedules for Commission approval in accordance with the terms of the Settlement Agreement.

DATED at the City of Vancouver, in the Province of British Columbia, this 9th day of January, 1998.

BY ORDER

Original signed by:

Kenneth L. Hall
Commissioner

KANELK TRANSMISSION COMPANY LIMITED
Box 1900, 110- 12th Avenue S.W., Calgary, AB T2P 2M1

W.K. Taylor
Vice President
Tel: (403) 267-7406
Fax: (403) 267-2575

December 8, 1997

Mr. Robert Pellatt
British Columbia Utilities Commission
6th Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Dear Mr. Pellatt:

Re: Kanelk Transmission Company Limited
1998-2000 Rate Application

Kanelk is pleased to advise the Commission that a comprehensive settlement (the "Negotiated Settlement") on Kanelk's 1998, 1999 and 2000 revenue requirements has been negotiated between Kanelk, B.C. Hydro and Fording Coal (collectively "the Parties").

Details of the negotiated revenue requirement are set out in the attached schedules. Key differences from Kanelk's filing dated September 10, 1997 are as follows:

- the forecast of capital expenditures has been reduced to \$1,196,000, \$560,000 and \$474,500 for 1998, 1999 and 2000 respectively; the reduction in capital expenditures is principally due to modifications to the maintenance plan and to the elimination of the costs of the "Thermal Survey" and the "Elkview Coal Mine Move" from the forecast
- the forecast of transmission line maintenance expense has been changed to \$90,000 in 1998, escalating at 2% per year thereafter
- the forecast of property taxes has been held constant at the level of actual 1997 property taxes
- application costs have been reduced from \$186,000 to \$30,000, amortized evenly over the three year period 1998-2000

The terms of the Negotiated Settlement are as follows:

1. Subject to Clauses 3 to 7 below, the annual charge to B.C. Hydro (payable in equal monthly installments) for the costs of the services and facilities directly related to Kanelk shall be as follows:

1998	\$795,800
1999	\$921,900
2000	\$977,800

2. Kanelk will flow through to B.C. Hydro, on a dollar-for-dollar basis, charges (if any) incurred by Kanelk from the Alberta Transmission Administrator (including any retroactive adjustments now expected from the Alberta Transmission Administrator) for the provision of any system support services requested by B.C. Hydro pursuant to, and in accordance with, the terms and conditions approved by the Commission for wholesale transmission services for Kanelk ("Kanelk's Terms and Conditions"), as they may be amended from time to time.
3. Subject to the agreement of the Parties, such agreement not to be unreasonably withheld, should any additional capital expenditures be required to meet B.C. Hydro's safety or reliability standards (including, but not limited to, significant capital expenditures required as a result of major storm damage, and excluding minor capital expenditures arising from typical storm conditions), the additional capital expenditures will be added to Kanelk's rate base and Kanelk's revenue requirement as set out in Clause 1 will be adjusted accordingly.
4. In the event that Kanelk determines that a relocation of its facilities crossing the Elkview Coal Mine is necessary, Kanelk will consult with B.C. Hydro regarding the available options. If B.C. Hydro and Kanelk agree that such a relocation is necessary, and agree to the costs of that relocation, such agreement not to be unreasonably withheld, the costs incurred by Kanelk in relocating its facilities will be added to Kanelk's rate base and Kanelk's revenue requirement as set out in Clause 1 will be adjusted accordingly.
5. Any difference between the forecast of property taxes of \$192,500 and B.C. Hydro's portion of actual property taxes paid by Kanelk (B.C. Hydro's portion being 90% of the total property taxes paid by Kanelk) will be added to or deducted from the invoice to BC. Hydro in the month following receipt by Kanelk of the invoices for property taxes.
6. Any difference between the forecast cost of \$150,000 for the legal survey and land registration and the actual cost thereof will be added to or deducted from the forecast capital expenditures for 1998 and the revenue requirements as set out in Clause 1 above will be adjusted according for the years 1999 and 2000.
7. The rate of return, and consequently the revenue requirement set out in Clause 1, will be adjusted annually in accordance with the Commission's Automatic Adjustment Mechanism using a benchmark ROE of 12.75 %.
8. All other issues related to Kanelk's revenue requirement are agreed to by the Parties and are reflected in the attached schedules.

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9. The Negotiated Settlement is without prejudice to the rights of any of the Parties to apply to the Commission, following the decision on Kanelk's Terms and Conditions, with respect to the appropriate return on equity and/or appropriate depreciation rates in light of the Commission's decision on the treatment of unrecovered investment.
10. The Negotiated Settlement is contingent on the Commission's acceptance of the entire agreement and if the Commission rejects any part of this settlement, all Parties are released from the terms of the settlement.

In conclusion, the Parties to this Negotiated Settlement believe that the comprehensive settlement set out herein balances the interests and views of all of the Parties and that the Negotiated Settlement is fair, reasonable and in the overall public interest.

The Parties respectfully request that the Commission approve this Negotiated Settlement as the basis for setting Kanelk's revenue requirement and charges to Kanelk's customers for the years 1998, 1999 and 2000.

Yours truly,

W.K. Taylor
Vice President

Accepted and agreed to:

B.C. Hydro:

Fording Coal:

Signature:

Name (print):

Title:

Date:

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9. The Negotiated Settlement is without prejudice to the rights of any of the Parties to apply to the Commission, following the decision on Kanelk's Terms and Conditions, with respect to the appropriate return on equity and/or appropriate depreciation rates in light of the Commission's decision on the treatment of unrecovered investment.
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Yours truly,

W.K. Taylor
Vice President

Accepted and agreed to:

B.C. Hydro:

Fording Coal:

Signature:

Name (print):

ZORA LAZIC

Title:

ASSOCIATE GENERAL
COUNSEL - REGULATORY

Date:

9 DECEMBER 1997

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9. The Negotiated Settlement is without prejudice to the rights of any of the Parties to apply to the Commission, following the decision on Kanelk's Terms and Conditions, with respect to the appropriate return on equity and/or appropriate depreciation rates in light of the Commission's decision on the treatment of unrecovered investment.
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Yours truly,

W.K. Taylor
Vice President

Accepted and agreed to:

B.C. Hydro:

Fording Coal:

Signature:

Name (print):
Title:
Date:

J.D. NEWLANDS
Agent *
Dec. 12/97

Approved by
Don Shylock Vice Pres.
Development by
Phone Dec9/97

Kanelk Transmission Company Limited

Appendix C

Statement of Earnings - (100% Pocaterra to Natal + 50% of Natal to Coleman)

(\$000's)

Line No.	<u>Recorded</u> 1996	Current <u>Estimate</u> 1997	<u>Forecast</u>		
			<u>1998</u>	<u>1999</u>	<u>2000</u>
1 Facilities Charge at Existing Rates (a)	602.2	739.8	735.6	735.6	735.6
2 Network Services Revenue	789.4	789.4	789.4	789.4	789.4
3 Interest Earned	0.3	0.0	0.0	0.0	0.0
4 Requested Increase in Facilities Charge	<u>0.0</u>	<u>0.0</u>	<u>60.2</u>	<u>186.3</u>	<u>242.2</u>
5 Revenue Requirement	<u>1,391.8</u>	<u>1,529.1</u>	<u>1,585.1</u>	<u>1,711.2</u>	<u>1,767.1</u>
6 Operating Deductions					
7 Network Services Charges	789.4	789.4	789.4	789.4	789.4
8 Operating Expenses	121.6	151.2	177.9	181.4	185.0
9 Property Taxes	179.5	192.5	192.5	192.5	192.5
10 Taxes on Income	4.8	1.2	50.9	75.8	88.1
11 Depreciation	27.2	52.9	67.9	97.8	111.8
12 B.C.U.C. Application Amortization	<u>142.7</u>	<u>142.7</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>
13 Total Operating Deductions	<u>1,265.1</u>	<u>1,329.8</u>	<u>1,288.5</u>	<u>1,346.8</u>	<u>1,376.8</u>
14 Required Return on Rate Base	126.7	199.3	296.6	364.4	390.3
	=====	=====	=====	=====	=====

Notes:

(a) Facilities Charge at Existing Rates:	<u>1997</u>
BCUC Decision:	735.6
777L Service Restoration Project (See 2.3) of \$102K	
Prorated Surcharge @ 16.5% for Oct - Dec, 1997	<u>4.2</u>
	739.8
	=====

Kanelk Transmission Company Limited
Appendix C
Schedule of Rate Base - (100% Pocaterra to Natal + 50% of Natal to Coleman)
(\$000's)

Line No.	Recorded <u>1996</u>	Current Estimate <u>1997</u>	<u>1998</u>	Forecast <u>1999</u>	<u>2000</u>
1 Property - December 31 (a)	2,114.6	2,717.6	3,913.6	4,473.6	4,948.1
2 Less: Accumulated Depreciation - December 31 (b)	<u>105.0</u>	<u>157.9</u>	<u>225.8</u>	<u>323.6</u>	<u>435.5</u>
3 Depreciated Property - December 31	2,009.6	2,559.7	3,687.8	4,150.0	4,512.6
4 Add: Prior Year Depreciated Property	<u>1,019.9</u>	<u>2,009.6</u>	<u>2,559.7</u>	<u>3,687.8</u>	<u>4,150.0</u>
5 Subtotal	<u>3,029.5</u>	<u>4,569.3</u>	<u>6,247.5</u>	<u>7,837.8</u>	<u>8,662.6</u>
6 Mid - Year	1,514.8	2,284.7	3,123.8	3,918.9	4,331.3
7 Necessary Working Capital (Mid-year)					
8 Unamortized BCUC application Cost	71.4	71.4	10.0	15.0	5.0
9 Other	<u>19.0</u>	<u>23.6</u>	<u>29.7</u>	<u>35.6</u>	<u>39.4</u>
10 Subtotal	<u>90.4</u>	<u>95.0</u>	<u>39.7</u>	<u>50.6</u>	<u>44.4</u>
11 <u>Rate Base-Mid Year</u>	<u>1,605.1</u>	<u>2,379.6</u>	<u>3,163.5</u>	<u>3,969.5</u>	<u>4,375.7</u>

Notes:

(a) Gross Property Continuity

Opening Balance	1,086.6	2,114.6	2,717.6	3,913.6	4,473.6
Plus: Additions (1997 adjusted per Sec 2.3)	1,016.8	603.0	1,196.0	560.0	474.5
Less: Retirements (correction of 1995 retirement)	<u>(11.1)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Closing Balance	<u>2,114.6</u>	<u>2,717.6</u>	<u>3,913.6</u>	<u>4,473.6</u>	<u>4,948.1</u>

(b) Accumulated Depreciation Continuity

Opening Balance	66.7	105.0	157.9	225.8	323.6
Plus: Depreciation Provision	27.2	52.9	67.9	97.8	111.8
Less: Writeoffs	<u>(11.1)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Closing Balance	<u>105.0</u>	<u>157.9</u>	<u>225.8</u>	<u>323.6</u>	<u>435.5</u>

Kanelk Transmission Company Limited

Appendix C

Schedule of Return - (100% Pocaterra to Natal + 50% of Natal to Coleman) (\$000's)

Line No.		100% Mid-Year Capitalization (\$)	Mid-Year Capital Ratios	Mid-Year Rate Base (\$)	Mid-Year Cost Rates (%)	Mid-Year Return (\$)
1	<u>1996 - Recorded</u>					
2	Debt	1,629.3	65.222	1,046.9	6.844	71.7
3	Common Shareholders' Equity	<u>868.8</u>	<u>34.778</u>	<u>558.2</u>	<u>9.864</u>	<u>55.1</u>
4	Total	<u>2,498.1</u>	<u>100.000</u>	<u>1,605.1</u>	<u>7.894</u>	<u>126.7</u>
5	<u>1997 Current Estimate</u>					
6	Debt		65.000	1,546.8	9.542	147.6
7	Common Shareholders' Equity		<u>35.000</u>	<u>832.9</u>	<u>6.204</u>	<u>51.7</u>
8	Total		<u>100.000</u>	<u>2,379.6</u>	<u>8.374</u>	<u>199.3</u>
9	<u>1998 - Forecast</u>					
10	Debt		65.000	2,056.2	8.500	174.8
11	Common Shareholders' Equity		<u>35.000</u>	<u>1,107.2</u>	<u>11.000</u>	<u>121.8</u>
12	Total		<u>100.000</u>	<u>3,163.5</u>	<u>9.376</u>	<u>296.6</u>
13	<u>1999 - Forecast</u>					
14	Debt		65.000	2,580.2	8.200	211.6
15	Common Shareholders' Equity		<u>35.000</u>	<u>1,389.3</u>	<u>11.000</u>	<u>152.8</u>
16	Total		<u>100.000</u>	<u>3,969.5</u>	<u>9.180</u>	<u>364.4</u>
17	<u>2000 Forecast</u>					
18	Debt		65.000	2,844.2	7.800	221.8
19	Common Shareholders' Equity		<u>35.000</u>	<u>1,531.5</u>	<u>11.000</u>	<u>168.5</u>
20	Total		<u>100.000</u>	<u>4,375.7</u>	<u>8.920</u>	<u>390.3</u>

Kanelk Transmission Company Limited
Appendix C
Schedule of Income Tax - (100% Pocaterra to Natal + 50% of Natal to Coleman)
 (\$000's)

Line No.	<u>Recorded</u> 1996	Current <u>Estimate</u> 1997	<u>1998</u>	<u>Forecast</u> 1999	<u>2000</u>	
1	Revenues	1,391.8	1,529.1	1,585.1	1,711.2	1,767.1
2	Less:					
3	Operating Expense	1,090.4	1,275.7	1,169.7	1,173.2	1,176.9
4	Depreciation Expense	27.2	52.9	67.9	97.8	111.8
5	Interest Expense	<u>71.7</u>	<u>147.6</u>	<u>174.8</u>	<u>211.6</u>	<u>221.8</u>
6	Net Income Before Taxes	202.5	52.9	172.7	228.6	256.6
7	Less :Timing Differences	<u>47.3</u>	<u>50.1</u>	<u>58.6</u>	<u>58.7</u>	<u>59.2</u>
8	Taxable Income	<u>155.3</u>	<u>2.8</u>	<u>114.1</u>	<u>169.8</u>	<u>197.4</u>
9	Income Tax					
10	Combined Tax @44.62%	5.3	1.2	50.9	75.8	88.1
11	Tax Adjustment	<u>(0.5)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
12	TotalTax Provision	<u>4.8</u>	<u>1.2</u>	<u>50.9</u>	<u>75.8</u>	<u>88.1</u>

Kanelk Transmission Company Limited
Appendix C
Schedule of Operating Expense - (100% Pocaterra to Natal + 50% of Natal to Coleman)
 (\$000's)

Line No.	Recorded <u>1996</u>	Current Estimate <u>1997</u>	Forecast		
			<u>1998</u>	<u>1999</u>	<u>2000</u>
1	40.4	65.7	67.0	68.4	69.7
2	7.2	8.1	8.3	8.4	8.6
3	67.1	65.1	90.0	91.8	93.6
4	2.0	3.3	3.4	3.5	3.5
5	<u>4.9</u>	<u>9.0</u>	<u>9.2</u>	<u>9.4</u>	<u>9.6</u>
6	<u>121.6</u>	<u>151.2</u>	<u>177.9</u>	<u>181.4</u>	<u>185.0</u>

Kanelk Transmission Company Limited
Appendix C
Summary of Working Capital - (100% Pocatererra to Natal + 50% of Natal to Coleman)

Line No.	<u>Recorded</u> <u>1996</u>	(\$000's) <u>Current</u> <u>Estimate</u> <u>1997</u>	<u>Forecast</u>		
			<u>1998</u>	<u>1999</u>	<u>2000</u>
1	4.8	1.2	50.9	75.8	88.1
2	<u>6.90%</u>	<u>6.90%</u>	<u>6.90%</u>	<u>6.90%</u>	<u>6.90%</u>
3	<u>0.3</u>	<u>0.1</u>	<u>3.5</u>	<u>5.2</u>	<u>6.1</u>
4	1,090.4	1,275.7	1,169.7	1,173.2	1,176.9
5	less: Network Services Charge 789.4	789.4	789.4	789.4	789.4
6	Total 301.1	486.4	380.3	383.9	387.5
7	<u>5.10%</u>	<u>5.10%</u>	<u>5.10%</u>	<u>5.10%</u>	<u>5.10%</u>
8	<u>15.4</u>	<u>24.8</u>	<u>19.4</u>	<u>19.6</u>	<u>19.8</u>
9	Depreciation Expense 27.2	52.9	67.9	97.8	111.8
10	<u>12.60%</u>	<u>12.60%</u>	<u>12.60%</u>	<u>12.60%</u>	<u>12.60%</u>
11	<u>3.4</u>	<u>6.7</u>	<u>8.6</u>	<u>12.3</u>	<u>14.1</u>
12	Return on Common Equity . 55.1	51.7	121.8	152.8	168.5
13	<u>12.60%</u>	<u>12.60%</u>	<u>12.60%</u>	<u>12.60%</u>	<u>12.60%</u>
14	<u>6.9</u>	<u>6.5</u>	<u>15.3</u>	<u>19.3</u>	<u>21.2</u>
15	Interest Expense 71.7	147.6	174.8	211.6	221.8
16	<u>-9.80%</u>	<u>-9.80%</u>	<u>-9.80%</u>	<u>-9.80%</u>	<u>-9.80%</u>
17	<u>(7.0)</u>	<u>(14.5)</u>	<u>(17.1)</u>	<u>(20.7)</u>	<u>(21.7)</u>
18	<u>TOTAL WORKING CAPITAL 19.0</u>	<u>23.6</u>	<u>29.7</u>	<u>35.6</u>	<u>39.4</u>