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ROBERT J. PELLATT
COMMISSION SECRETARY

VIA FACSIMILE

October 8, 1997

Mr. W.A. Campbell
President
Kootenay-Okanagan Electric Consumers Association
Box 1287
Summerland, B.C.
V0H 1Z0

Dear Mr. Campbell:

Re: West Kootenay Power Ltd. ("WKP")
Commission Order No. G-72-97

Thank you for your recent letters regarding Commission Order No. G-72-97 in which the Commission approved the establishment of deferral accounts to recover estimated 1997 revenue deficiencies for the residential and general service customer classes. In your letter you indicate your concern that the error which resulted in the under-recovery of revenue from the residential and general service classes shows mismanagement by the company and that the decision to allow recovery by the Commission means that WKP does not have an incentive to operate in a well-managed and efficient manner. Accordingly, you suggest that this means that incentive regulation works only to the benefit of the utility and does not provide sufficient protection to ratepayers.

The Commission shares your view that the error made in setting the rates for service is unfortunate. However, after extensive conversations between Commission staff and WKP staff, the Commission is satisfied that the under-recovery was the result of a clerical error. Specifically, the formula contained in the computer program used to generate the energy use statistics, which in turn are used to calculate the increase in the residential rates and the decrease in the general service rates, was incorrectly inputted so that the energy assumed to be contained in the trailing block was over-estimated. Since these estimates were used to calculate what the rates would have been with and without the revenue shifts, and since the calculations after this point were done correctly, the error did not show up in the checks done by WKP when it established the rates for 1997.

In coming to its determination, whether to allow the establishment of deferral accounts to recover the revenue deficiencies, the Commission was swayed by the following points. First, the error made by WKP meant that it was not in compliance with a specific Commission direction and this needed to be rectified. Second, residential and general service customers were made no worse off by the establishment of the deferral account than they would have been if the rates had been set correctly at the beginning of the year. Third, if the error made by WKP had resulted in customers being overcharged, the Commission would have ordered the utility to reduce customer rates by the amount of the over-recovery.

Although the Commission was concerned that this error occurred and staff have expressed to WKP the need to ensure that future errors of this sort do not occur, the Commission is cognizant that some amount of human error is unavoidable. This is true whether or not WKP is subject to incentive regulation or more traditional cost of service regulation. Indeed, even if WKP's rates were still being set through the traditional cost of service method, the Commission's decision with regard to the specifics of this case would have been no different. Accordingly, the Commission did not and does not believe that any public process to examine this incident is either necessary or desirable and declines to examine this matter further.

Yours truly,

A handwritten signature in black ink, appearing to read 'R. Pellatt', with a stylized flourish at the end.

Robert J. Pellatt

DWE/cms

cc: Mr. Robert H. Hobbs
Director, Regulatory Affairs and Corporate Secretary
WKP Registered Intervenors