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BRITISH COLUMBIA  
UTILITIES COMMISSION

ORDER  
NUMBER G-6-98

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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 Terms and Conditions of Service

**BEFORE:** K.L. Hall, Commissioner )  
F.C. Leighton, Commissioner ) January 8, 1998

**O R D E R**

**WHEREAS:**

- A. Following a public hearing into the electricity rates charged by Kanelk Transmission Company Limited ("Kanelk") for transmission and other services provided to British Columbia Hydro and Power Authority ("B.C. Hydro"), the Commission, on October 17, 1995, issued its Decision and Order No. G-87-95. The Order set out the rates and rate base for Kanelk and required the utility to conclude an agreement with B.C. Hydro for Terms and Conditions of Service to be filed for approval; and
- B. On October 4, 1996, Kanelk advised the Commission that it had failed to reach an agreement with B.C. Hydro and applied for Commission approval of its Terms and Conditions of Service. By Letter No. L-49-96, the Commission requested B.C. Hydro and Fording Coal Limited ("Fording Coal"), the only other intervenor in the proceeding, to review and comment on the application by November 29, 1996; and
- C. As no further progress was made on the application, Commission Order No. G-87-97 set the matter down for a written hearing requiring B.C. Hydro and Fording Coal to make their submissions by August 15, 1997. Kanelk was to respond to the submissions by August 22, 1997, following which the Commission would make its Decision; and

- D. Those submissions were made and, on November 28, 1997, Kanelk filed an amended Wholesale Transmission Service and System Support Service Agreement with B.C. Hydro outlining the Terms and Conditions of Service on its transmission system ("the Agreement"); and
- E. Kanelk advised the Commission that all parties support the Agreement with the exception of B.C. Hydro's position on Unrecovered Investment; and
- F. The Commission has reviewed the Agreement and the submissions.

**NOW THEREFORE** the Commission orders as follows:

1. The Commission approves for Kanelk the Wholesale Transmission Service and System Support Services Agreement as filed inclusive of Clause 6.2 on Unrecovered Investment. Kanelk is to file two copies of the executed Agreement as a Tariff Supplement.
2. The Commission directs that in the possible situation that B.C. Hydro abandons its use of the Kanelk system and is required to make a payment to Kanelk under Clause 6.2 of the Agreement and, should Kanelk subsequently find a useful purpose for the system or assets, Kanelk will be required to refund a portion of the unrecovered investment payment to B.C. Hydro.
3. The Commission's Reasons for Decision are attached as Appendix A.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 19th day of January, 1998.

BY ORDER

*Original signed by:*

Kenneth L. Hall  
Commissioner

Attachment

## **REASONS FOR DECISION**

### **APPLICATION KANELK TRANSMISSION COMPANY LIMITED FOR APPROVAL OF TERMS AND CONDITIONS OF SERVICE**

#### **BACKGROUND**

In accordance with Commission Order No. G-87-97, submissions were made with respect to Kanelk's Terms and Conditions of Service. British Columbia Hydro and Power Authority's ("B.C. Hydro") November 25, 1997 submission, attached a November 21, 1997 letter from the Grid Company of Alberta ("Gridco") documenting the understanding reached between Gridco and B.C. Hydro with respect to interconnections. The submission stated that, if events unfold other than as contemplated in that letter, B.C. Hydro expressly reserved its right to seek review of Kanelk's terms and conditions.

In addition, B.C. Hydro takes issue with the inclusion of two clauses in the Agreement:

Clause 6.2 states:

"On the date of termination of the agreement, B.C. Hydro will pay to Kanelk the full amount of the Unrecovered Investment less any share of the Unrecovered Investment contracted for by other Wholesale Transmission Service customers of Kanelk at that time."

Clause 1.1 defines "Unrecovered Investment" as "the remaining value of the Kanelk System calculated as depreciated rate base".

Kanelk believes it requires reassurance on potential stranded assets and, its November 28, 1997 submission, characterizes the positions as follows.

#### **1. Starting Date for Unrecovered Investment**

B.C. Hydro states that the system was built for Alberta and unrecovered investment is the remaining net rate base of assets added to the Kanelk system going today forward. Kanelk's definition recognizes that the Commission set the rate base applicable to B.C. customers in its October 17, 1995 Decision, allowing inclusion of only those expenditures made since 1989.

2. Utility Risk

B.C. Hydro believes that Kanelk should not require Clause 6.2 as it must accept the normal utility risk associated with system investments. Kanelk counters that it is especially at risk as B.C. Hydro is the only customer, and that common practice in such situations is to require the customer to pay up-front or to make a commitment to pay-out the net book value.

3. Potential for Other Users

Kanelk agrees with B.C. Hydro that it should recognize that B.C. Hydro may not continue to be the sole user of the system and states that it has done so in the wording in Clause 6.2 above.

**COMMISSION FINDINGS**

The Commission agrees with Kanelk that the October 17, 1995 Decision set the rate base applicable to B.C. customers and approves the wording of Clause 1.1.

The Commission agrees with Kanelk that it is appropriate for utilities to require that single customers make a commitment to keep the utility whole with respect to assets solely dedicated to that customer. Therefore, the Commission approves the inclusion of Clause 6.2.

However, if B.C. Hydro does abandon its use of some or all of the system and is required to make a payment under Clause 6.2, the Commission directs that, if Kanelk subsequently finds a useful purpose for the system or assets, it will be required to refund a portion of the payment to B.C. Hydro as may be determined by the Commission at that time.