



SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: <http://www.bccuc.com>

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER **G-123-98**

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

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

and

West Kootenay Power Ltd. - 1998 Annual Review and
Preliminary 1999 Revenue Requirement and Incentive Mechanism Review

BEFORE: P. Ostergaard, Chair)
L.R. Barr, Deputy Chair)
K.L. Hall, Commissioner) December 22, 1998
F.C. Leighton, Commissioner)
P.G. Bradley, Commissioner)

O R D E R

WHEREAS:

- A. On October 26, 1998, West Kootenay Power Ltd. (“WKP”) filed a Preliminary 1999 Revenue Requirements and Incentive Mechanism Review Application (“the Application”). WKP applied pursuant to the Utilities Commission Act (“the Act”) for an Order to set rates, during a period beginning January 1, 1999 and ending on any anniversary date of January 1, 1999 following the filing of adequate justification for such termination, in accordance with the Incentive Mechanism approved by Commission Order No. G-73-96; and
- B. WKP further applied for an Order approving certain amendments to that Incentive Mechanism; and
- C. A 1998 Annual Review was required to assess WKP’s performance and to make adjustments against 1997 and 1998 Revenue Requirements; and
- D. WKP applied for an Order that a Negotiated Settlement Process be implemented; and
- E. The Commission issued Order No. G-96-98 setting down an Annual Review and a pre-hearing conference at which a consensus was reached to proceed with the negotiation settlement process on November 30, 1998; and
- F. The Annual Review on December 1, 1998 resulted in a consensus supporting WKP’s final 1997 incentive adjustments and preliminary 1998 adjustments; and

- G. On December 15, 1998, a proposed negotiated settlement was reached among the participants and circulated to all Registered Intervenors, Interested Parties and the Commission; and
- H. No letters of objection to the proposed settlement were received; and
- I. The Commission has considered the Application and is satisfied that the Negotiated Settlement, attached as Appendix A hereto, is necessary and in the public interest.

NOW THEREFORE the Commission orders as follows:

1. The Commission approves the Negotiated Settlement, attached as Appendix A, in its entirety.
2. The 1997 and 1998 financial incentive adjustments are approved.
3. WKP is ordered to file a Final Rate Application which reflects the terms of the negotiated settlement, effective January 1, 1999.

DATED at the City of Vancouver, in the Province of British Columbia, this 22nd day of December, 1998.

BY ORDER

Original signed by:

Peter Ostergaard
Chair

Attachment

WILLIAM J. GRANT
EXECUTIVE DIRECTOR,
REGULATORY AFFAIRS & PLANNING
bill.grant@bcuc.com
web site: <http://www.bcuc.com>



APPENDIX A
to Commission Order No. G-123-98
Page 1 of 13

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
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FACSIMILE: (604) 660-1102

VIA FACSIMILE

December 15, 1998

To: Registered Intervenors and
Interested Parties

Re: Proposed Settlement of Issues
West Kootenay Power Ltd.
1999 Revenue Requirements and Incentive Mechanism Application

Enclosed with this letter you will find the proposed settlement package achieved with respect to the WKP October 26, 1998 Revenue Requirements and Incentive Mechanism Application.

This settlement package is now public and is being submitted to the Commission and all intervenors and interested parties. Also enclosed are the letters of endorsement of the package received to date from the participants in the negotiated settlement process. No communication has been received from the following parties who were present during the negotiation sessions:

- Mayor J.C. Stranart, Corporation of the Village of Keremeos
- Mr. W. Mennell, Fairview Heights Irrigation District

Prior to consideration by the Commission, intervenors and interested parties who did not participate in the settlement negotiations are requested to provide to the Commission any further comments on the settlement package by December 22, 1998. Thereafter, the Commission will determine the appropriate mechanism to establish an approved revenue requirement for WKP.

Yours truly,

Original signed by:

W.J. Grant

BMK/ssc
Encl.



WILLIAM J. GRANT
EXECUTIVE DIRECTOR,
REGULATORY AFFAIRS & PLANNING
bill.grant@bcuc.com
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FACSIMILE: (604) 660-1102

~~C O N F I D E N T I A L~~

VIA FACSIMILE

December 9, 1998

Dear Participants:

Re: Proposed Settlement of Issues
West Kootenay Power Ltd.
1999 Revenue Requirements and Incentive Mechanism Application

The purpose of this letter is to record the proposed settlements achieved with respect to the West Kootenay Power Ltd. ("WKP") 1999 Revenue Requirements and Incentive Mechanism Application filed October 26, 1998. This letter remains confidential until it is submitted to the British Columbia Utilities Commission for consideration. I, therefore ask that you provide to me a communication of endorsement for the proposal by Monday, December 14, 1998. At that time, the Settlement Agreement will be made public and provided to the Commission and all interested parties.

I have attached the 1999 DSM incentive mechanism worksheet utilized at the sessions. I have also added cross-references to the Application as requested by the parties to the negotiations.

It is recognized by all the parties that the agreement represents a package proposal within which there has been give and take by all parties. No issue is to be severed from the proposed settlement without allowing signatories the opportunity to address other related issues in the package.

In accordance with the NSP Guidelines, the right of parties to dissent from a proposed agreement is explicitly recognized by the Commission. If a party dissents, it can submit a written argument to the Commission panel. If the Commission panel is of the view that the dissent is reasonable and material, it may request written rebuttal argument or, where the settlement review process is to occur at an oral hearing, request argument at the oral hearing. If the dissent is determined to be reasonable and material, the dissenting party retains the right to present evidence and to cross-examine, or to rebut the evidence of others if there is a written hearing.

1. Term (Ref. Tab 1, page 1)

The procedures in the existing agreement approved by Commission Order No. G-73-96 will be extended for one year. Therefore, prior to November 7, 1999 WKP will file with the Commission Preliminary Revenue Requirement materials, including a Statement of Adjustments for a rate increase effective January 1, 2000. The Commission will order an Annual Review process whereby the public will be invited to examine the material, submit other issues for determination by the Commission, and meet to review all issues. This review is similar to a negotiation settlement process and parties may institute a complaint procedure before the Commission if not satisfied.

WKP is required to file, in early October 1999, a multi-year proposal to commence January 2000. The Application may propose a continuation of existing ratemaking methods but all parties reserve their right to argue in favour of proposed targets, performance based regulation methods or traditional rate regulation.

2. Load/Resource Balance (Ref. Tabs 3 and 4, BCUC Staff Information Request 1.5)

As recommended by the Load and Customer Forecast committee which was reconvened from the 1996 Settlement, the 1999 Load and Customer Forecast in Tab 3 of the Application is accepted. The Revenue Forecast Variance Mechanism (“RFVM”) proposed in the Application is rejected.

The 1999 Power Purchases Forecast is also accepted, with the addition of a Power Purchase Variance Mechanism (“PPVM”) to recover any positive or negative variance resulting from sales load variance from the forecast of 1999 power purchase costs.

In response to Commission Staff Information Request 1.5, WKP suggested two alternatives to the variance mechanisms proposed in its Application. Alternative 2 did not include an RFVM so all load forecast risks would be borne by the Company. The alternative mechanism did propose a Power Purchase Variance Mechanism and a Market Incentive Mechanism (“MIM”) to share any savings resulting from displacement of B.C. Hydro capacity and energy purchases. Alternative 2 is accepted with a modified MIM as follows:

- 0% WKP incentive to \$200,000,
- 50% WKP incentive between \$200,000 and \$600,000 savings,
- 25% WKP incentive beyond \$600,000 savings,
- Overall cap of \$500,000 to WKP incentive applies.

This sharing mechanism applies for 1999 only and WKP is to establish a sub-committee to investigate alternative incentive mechanisms for the year 2000 and beyond.

3. O&M (Ref. Tab 2, Sections 5.1 and 5.2)

The current rate mechanism applies escalators, cost drivers, and productivity improvement factors to approved base costs of certain Operating and Maintenance accounts. The difference between target costs and actual costs is shared equally between customers and the Company. This formula and incentive is extended for 1999, with 0% Productivity Improvement Factor for 1999. The parties recognize that WKP will continue to realize productivity improvements in its base O&M costs; however, the Company expects to be incurring significant incremental O&M expense in 1999, including costs that will result in O&M savings beyond the term of this agreement. O&M costs not previously reflected in the base O&M budget include:

- severance/restructuring costs,
- safety related costs driven in part by changes in WCB practices,
- reconditioning of the Upper Bonnington Bridge,
- contaminated site cleanup.

No rebasing of the 1995 base costs is required.

WKP had requested the classification of 1999 severance and early retirement costs made to restructure the work force as extraordinary O&M expense to be deferred and amortized over three years. No Severance/Restructuring cost account is accepted.

The Application requests approval of an Extraordinary O&M account for \$822,500 related to an increase in 1999 pension expense required due to a lower than expected 1998 return on the pension investment fund. The pension Plan adjustment as per Commission Staff Information Request 3.3 is accepted, based on the latest update of the pension shortfall. It is agreed that any pension surplus in future years will be used to repay customers for contributions to the 1999 pension shortfall.

4. Capital Expenditures (Ref. Tab 2, Section 8)

The current rate mechanism applies escalators, cost drivers, productivity improvement factors and an incentive mechanism to approved base costs of certain capital expenditure accounts. This mechanism is also extended for 1999, with 0% productivity improvement factor. The Extraordinary Capital Expenditure projects identified in section 8 of Tab 2 of the Application are accepted. The Y2K and Customer Information System projects are accepted as 1999 Extraordinary Capital Expenditures requiring CPCN approval, subject to Commission review of extraordinary costs and business plan.

The 1999 Base Capital is to be set at levels forecast in the 20-Year Plan for Transmission and Distribution Upgrades.

Capitalizing Overhead at 8% is accepted and is to be excluded from the sharing mechanism.

WKP filed a Summary Report of a Transmission & Distribution System Plan, undertaken during 1998 to provide a comprehensive review of optimized long-term transmission and distribution system development. The parties agree that the Commission should establish a hearing process, including a workshop, on the 20-Year System Plan for completion prior to November 1999.

5. Financing (Ref. Tab 2, Section 5.3)

The current rate mechanism applies cost drivers and an incentive mechanism to approved financing base costs. This mechanism is also accepted for 1999 as applied for, with the base cost being the embedded cost to the last debt issue and the escalator being the yield on 30-year bonds plus a risk premium of 100 basis points.

The current rate mechanism applies cost drivers and an incentive mechanism to the ROE Adjustment Mechanism approved by Commission Order No. G-35-94, as revised by Commission Order No. G-49-97. The Return on Equity mechanism is to continue in 1999.

6. DSM (Ref. Tab 2, Section 3.3)

The 1996 Settlement Agreement approved and incorporated the recommendations of a Demand-Side Management (“DSM”) Incentive Committee. The DSM Incentive Committee was reconvened to examine various costs and energy savings in order to verify the incentive from DSM programs in 1998 and make recommendations regarding the DSM incentive mechanism for 1999. The 1999 DSM incentive mechanism endorsed by the DSM Incentive Committee is accepted as attached.

The 1999 programs by class are accepted, based on the most recent adjustments to residential programs and targets.

Review of programs and incentives is to occur by a downsized DSM Committee after consultant review. A deferred account not to exceed \$20,000 may be used to hire an independent consultant only if the DSM Committee determines it needs additional advice.

7. Performance Standards (Ref. Tab 5)

The 1999 Application proposes that prior to approval of an incentive, the Commission should determine if the incentive was earned at the expense of performance. In some cases, the incentive may be awarded even though the Company did not meet or exceed the Performance Standards. This proposed assessment based on overall performance is accepted.

Generator Reliability is to replace System Losses as a 1999 Performance Standard as described in Tab 5, page 15, provided WKP files for approval the 20-Year Transmission & Distribution System Plan in the second quarter of 1999. There will be no financial incentive in 1999 if the Plan is not filed.

8. Other (Ref. Tab 1, pages 2 and 3)

WKP applied to have variations in property tax, capital tax and AFUDC from the target costs treated on a flow-through basis in the Statement of Adjustments in the year they are incurred. Flow-through treatment is accepted.

The deferral accounts and amortizations in Tab 2, Section 5.3.1 are all accepted as applied for except that the Electricity Market Task Force costs are to be shared equally between shareholders and ratepayers.

The 1996 Settlement approved the use of “Town Hall” type meetings to be held in the evening for those parties not wanting to participate in the Annual Review. Such Town Hall meetings are to continue but costs are to be minimized.

The 1997 Revenue Restructuring at Tab 2 page 5 previously approved by Commission Order No. G-15-98 is removed from the Application.

The Final Adjustment to 1997 Revenue Requirements at Tab 2, page 19 is accepted.

The Preliminary Adjustment to 1998 Revenue Requirements at Tab 2, page 20 is accepted.

Yours truly,

Original Signed by:

W.J. Grant

BMcK/mmc
Enclosures

cc: Mr. Robert H. Hobbs
Director, Regulatory and Government Affairs
West Kootenay Power Ltd.

Demand Side Management Incentive Mechanism for 1999:

The 1999 DSM incentive mechanism described in this document has been approved by the DSM Incentive Committee and is designed to control costs and promote the achievement of energy conservation targets.

Changes to The Incentive Mechanism

The revised mechanism has changes that focus on savings targets and cost targets by sector:

1. Instead of a single variable cost target for all programs, there will be a DSM variable cost target for each of the three customer sectors (residential, general service and industrial).
2. Previously fixed costs (labour and training) were excluded from the target costs for incentive purposes. Now all fixed labor and training costs for delivery activities will be included for incentive purposes. Internal planning, monitoring and evaluation labor and material costs and related non-routine consulting studies will be excluded for incentive purposes.
3. To help meet our DSM targets, WKP will work with Energy Services Providers (ESP). Under this arrangement WKP will introduce our customers to specialized ESP services and will provide the ESP with local WKP resources. WKP will charge the ESP for resources it uses and any fees received will be applied against fixed costs.

Target Cost

Cost Driver

The cost driver is kW.h savings for variable unit costs. There is no cost driver for fixed costs. These costs are controlled by the total resource cost test.

Base Cost

- The variable base costs will be derived on the lower of 1997 or 1998 variable costs for each of the three main sectors (Residential, General Service, and Industrial). For 1997 the variable cost for each of the aforementioned sectors is 15.4, 6.2, and 1.4 cents / kW.h respectively.
- The fixed base cost will be established as the lower of total 1997 (\$422,000) or 1998 fixed costs (labour and training) for all delivery activities. Costs related to planning and evaluation activities, including non-recurring and periodic consulting studies are excluded from the target cost for incentive purposes.

Base Cost Escalator

The base cost escalator will be the CPI for Canada

Prerequisites

- The incentive related to Variable Costs will be determined for each of the three sectors (Residential, General Service and Industrial) and will be earned for a particular sector only if 90% of the energy conservation target for that sector is met.
- The incentive for Fixed Costs will be determined if any sector exceeds the energy savings threshold and only applied if an incentive for variable costs is earned.

Sharing of Variances from Target Cost

It is proposed that variances from Target Cost for this account be shared with the customer and the company on an equal basis:

- Favourable variances for variable costs will be determined by sector;
- Any variances for fixed costs will be treated as an adjustment to the total favourable variable cost variance.

Dec. 10 '98 15:17

KEREMEOS IRRIGATION DIS

FAX 125049956960

P. 1

FAX

DATE: December 9

TO: Ed Bealle, Keremeos Irrigation Association

FAX: 8,1,250,499-5696

FROM: B.C. Utilities Commission

PAGES: 7

MEMO

Proposed Settlement of Issues
 West Kootenay Power Ltd.
 '99 RR and Incentive Mechanism Appl.

NO MAIL TO FOLLOW.

If there are transmittal problems, please
 call (604)660-4700 or B.C. Toll Free at
 1-800-663-1385

December 10, 1998

Re: Proposed Settlement of Issues
West Kootenay Power Ltd.
1999 Revenue Requirements and Incentive Mechanism Application

I wish to endorse the proposal you have transmitted, regarding
 the above, which was received December 9th, 1998.

Yours very truly

Ed Bealle
 Keremeos Irrigation District
 and
 Water Supply Assoc. of B.C.

7

Keremeos Irrigation District
 P.O. Box 220
 Keremeos, B.C. V0X 1N0
 Phone: 250-499-5651
 Fax: 250-499-5696

BCUC Log # 1740
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 DEC 10 1998
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John Hall

250-492-7323

12/14/1998

APPENDIX A

to Commission Order No. G-123-98

Page 9 of 13



Princeton Light & Power

P.O.Box 908

Penticton, B.C., Canada, V2A 7G1

Telephone: (250) 492-3172

Facsimile: (250) 492-7323

BCUC Log #... <u>1757</u>
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December 14, 1998

British Columbia Utilities Commission
P. O. Box 250
6th floor, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

By FAX: 1-604-660-1102

Attention **W. J. (Bill) Grant, Executive Director**

CONFIDENTIAL MATERIAL

Dear Bill:

**RE: Proposed Settlement of Issues
West Kootenay Power - 1999 Revenue Requirements and Incentive
Mechanism Application**

PLP fully supports, as a package, the Proposed Settlement of Issues as negotiated at the meetings held in Kelowna, BC, on November 30th, December 1st & 2nd.

PLP continues to support the 'NSP' as a superior way of getting an effective result from these applications by way of active stakeholder participation and broader discussion of the issues.

Respectfully submitted by,

Original signed by John Hall.

John B. Hall, President & CEO

cc IMEU members

Operating Under Federal License No. WKP 99 FF

"Busy being the Best"

Princeton Light & Power, Penticton, B.C. 1999

DEC-14-1998 09:12

CITY YARD OFFICE



**Works and Utilities
Department**

Electrical Division
1495 Hardy Street
Kelowna, B.C. V1Y 7W9
Tel: (250) 862-5500 Option 3
Fax: (250) 762-0165

Dec. 14, 1998

BCUC Log # <u>1756</u> RECEIVED DEC 14 1998 Routing _____

Mr. W. J. Grant
Executive Director, Regulatory Affairs & Planning
British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 150
Vancouver, British Columbia
V6Z 2N3

"CONFIDENTIAL"


Dear Mr. Grant:

***Re: Proposed Settlement of Issues
West Kootenay Power Ltd.
1999 Revenue Requirements and Incentive Mechanism Application***

The Interior Municipal Electrical Utilities from the City of Kelowna, City of Nelson, City of Grand Forks, City of Penticton and District of Summerland are jointly endorsing the Settlement Agreement (as a package) achieved with respect to the West Kootenay Power Ltd. 1999 Revenue Requirements and Incentive Mechanism Application.

We fully support the Negotiated Settlement Process and recommend the conclusions arrived at on Nov. 30th, Dec. 1st & 2nd, 1998, be forwarded for review by the B.C. Utilities Commission.

Respectfully submitted.



R. E. Carle, P. Mgr., C.I.M.
Electrical Manager
IMEU Chairman

cc IMEU
Director of Works & Utilities

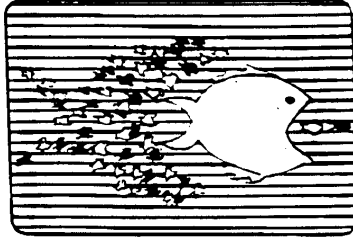
SENT BY: B.C. PIAC

:12-14-98 :11:41AM :

B.C. PIAC-

The
British Columbia
Public Interest
Advocacy Centre

815 - 815 West Hastings Street
Vancouver, B.C. V6C 1B4
Tel: (604) 687-3083 Fax: (604) 682-7898
email: bcpiac@bcciac.com
http://www.bcpiac.com

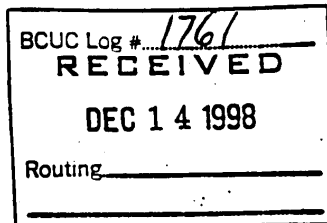


Michael P. Doherty	687-3034
R.J. Gathercole	687-3008
Patricia MacDonald	687-3017
Judy Porroek	687-3044
Janna L. Quill	687-4134
Lynda Cassels (archived student)	687-3063
Bernadene & Solizara	

December 14, 1998

VIA FAX AND MAIL: 660-1102

William J. Grant
Executive Director
B.C. UTILITIES COMMISSION
6th Floor - 900 Howe Street
Vancouver, B.C.
V6Z 2V3



Dear Mr. Grant:

**Re: Proposed Settlement of Issues - West Kootenay Power Ltd.
1999 Revenue Requirements and Incentive Mechanism Application**

My clients endorse the Proposed Settlement Agreement with one matter of clarification.

Under Item 7 on Page 4, reference is made to this proposed assessment based on "overall performance". During the discussion leading up to the settlement, it was noted that while overall performance would be the test, it would be open to any party to argue, and the Commission to order, that failure to meet a significant performance standard or a significant failure to meet any performance standard could result in the incentive being lost. This section, as presently worded, would in my submission leave it open to the company to argue that this was not an alternative as its overall performance was acceptable.

Yours sincerely,

B.C. PUBLIC INTEREST ADVOCACY CENTRE


Richard J. Gathercole
Counsel for CAC(BC) et al.

cc: Robert Hobbs (Via Fax)
Director, Regulatory and Governmental Affairs
West Kootenay Power Ltd.

RJG:ll
p:\msoffice\dick\energy\7154\grant.let

SENT BY: WEST KOOTENAY POWER : 12-15-98 : 8:01AM : WEST KOOTENAY POWER -

P.O. Box 130
Trail, BC V1R 4L4
250-368-3321

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WEST KOOTENAY POWER
ENERGYONE

December 14, 1998

VIA FAX

CONFIDENTIAL

Mr. William J. Grant
Executive Director
BC Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Grant:

**Re: 1999 Revenue Requirements and Incentive Mechanism Review
Proposed Settlement of Issues**

In reply to your letter of December 9, 1998, West Kootenay Power Ltd. endorses the Settlement Agreement, without qualification.

Sincerely,



Robert Hobbs
Director, Regulatory and
Government Affairs

RHH/h
99 RR/IM Settlement Issues

DEC-11-98 FRI 03:19 PM RICHARD TARNOFF

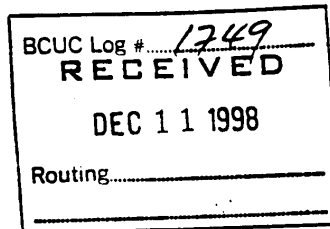
250 2928692

NATURAL RESOURCE INDUSTRIES

Box 19, Hedley, B.C., V0X 1K0

Fax / Phone (250)292-8692

BC Fishing Resorts and Outfitters Assn.
Council of Tourist Associations of BC
Guide Outfitting Association of BC
BC Trapping Association
National Farmers Union
Certified Organic Associations of BC
BC Wildcrafters Association



Whitewater Kayaking Association
BC Wildlife Federation
Recreational Canoeists Association
BC Federation of Fly Fishers
Steelhead Society
Outdoor Recreation Council of BC
Commercial Fishing Industry Council

December 11, 1998

Mr. W.J. Grant
Executive Director
Regulatory Affairs and Planning
BC Utilities Commission
900 Howe Street
Vancouver, BC, V6Z 2N3

VIA FAX: (604) 660-1102

Dear Mr. Grant.

This is to confirm that Natural Resource Industries endorses the proposed Settlement of Issues with respect to the West Kootenay Power Ltd. 1999 Revenue Requirements and Incentive Mechanism Application.

Yours truly,

A handwritten signature in cursive script, appearing to read "Richard Tarnoff".

Richard Tarnoff