



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

and

An Application by West Kootenay Power Ltd.
for Approval of Transmission Access

BEFORE: P. Ostergaard, Chair)
L.R. Barr, Deputy Chair)
K.L. Hall, Commissioner) March 10, 1999
P.G. Bradley, Commissioner)

O R D E R

WHEREAS:

- A. On March 9, 1998, West Kootenay Power Ltd. ("WKP") filed a Transmission Access Application ("the TAA") seeking approval of wholesale transmission access and retail transmission access for its largest industrial customers; and
- B. In the TAA, WKP requested interim approval of Tariff Supplement No. 7 (Terms and Conditions) and of rates as set out in Rate Schedules 100 to 108 for use by eligible customers seeking wholesale transmission access as defined in Tariff Supplement No. 7 (Eligible Customers), excluding customers served under Rate Schedule 31, as of March 21, 1998; and
- C. The Commission, by Order No. G-29-98, granted interim approval of Tariff Supplement No. 7 and of rates set out in Rate Schedules 100 to 108 for use by customers seeking wholesale transmission access, effective March 21, 1998. The Commission established and subsequently held a pre-hearing conference on Thursday, April 23, 1998 that was video-conferenced between Vancouver and Trail, B.C.; and
- D. As a result of input from the April 23, 1998 pre-hearing conference, the Commission by, Order No. G-44-98, issued a Regulatory Timetable and required WKP to refile the TAA together with changes it considered appropriate after reviewing the Commission Decision on British Columbia Hydro and Power Authority's Wholesale Transmission Services Application, by July 31, 1998; and
- E. On July 7, 1998, WKP held a consultative workshop with its eligible wholesale and retail customers in Kelowna, B.C., at which the TAA principles that it expected to file in its amended application were discussed; and

- F. On July 31, 1998, WKP refiled amendments to its TAA along with a separate application identified as the Access Principles Application ("the APA"), both for Commission approval; and
- G. The Commission reviewed the TAA and APA and issued a revised Regulatory Timetable and Notice of Public Hearing, Workshops and Negotiated Settlement by way of Order No. G-73-98, dated August 13, 1998, setting down a public hearing into the TAA to commence on October 19, 1998; and
- H. The Commission heard evidence and argument regarding the Application at the hearing.

NOW THEREFORE the Commission orders WKP to comply with the Commission's directions contained in the attached Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 10th day of March, 1999.

BY ORDER

Original signed by:

Peter Ostergaard
Chair



IN THE MATTER OF

West Kootenay Power Ltd.

TRANSMISSION ACCESS APPLICATION

DECISION

March 10, 1999

Before:

**Peter Ostergaard, Chair
Lorna R. Barr, Deputy Chair
Kenneth L. Hall, P.Eng., Commissioner
Paul G. Bradley, Commissioner**

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1.0 INTRODUCTION

1.1 Background

West Kootenay Power Ltd. ("WKP", "the Applicant", "the Company", "the Utility") is an investor-owned electric utility that provides wholesale and retail service in the Kootenay and South Okanagan areas of British Columbia. The Company's headquarters are at Trail, in the eastern part of the service territory. The more heavily populated Okanagan Valley in the western portion of the service territory includes the cities of Kelowna and Penticton. WKP is subject to regulation by the British Columbia Utilities Commission ("the Commission", "the BCUC").

WKP has an annual system peak of over 600 megawatts. The Utility owns four hydro-electric plants on the Kootenay River with a combined rated capacity of 205 megawatts. The remaining energy and capacity requirements are met through a combination of long-term contracts – with Washington Water Power, British Columbia Hydro and Power Authority ("B.C. Hydro"), Cominco Limited ("Cominco"), and a joint venture of the Columbia Power Corporation ("CPC") and the Columbia Basin Trust Power Corporation ("CBT") – and short-term market purchases.

On June 26, 1996, by Letter No. L-26-96, the Commission directed WKP to file a wholesale transmission access application by September 25, 1996. On August 21, 1996, WKP wrote to the Commission requesting a two month extension for this filing. This was granted by Letter No. L-36-96, dated September 5, 1996. On November 27, 1996, WKP filed its Transmission Access Application, seeking both wholesale and limited retail transmission access within its service territory.

In March of 1997, the provincial government appointed the B.C. Task Force on Electricity Market Reform ("the Task Force"), with a mandate to seek stakeholder consensus on restructuring the provincial electricity market. In April of 1997, WKP's Transmission Access Application was placed in abeyance pending the final report of the Task Force. That report was released in January, 1998.

On March 9, 1998, WKP applied for wholesale access and retail access for its largest customers. By Order No. G-29-98, dated March 20, 1998, the Commission granted interim approval to the wholesale access portions of the Application.

Beyond the Applicant's service area, most of the remainder of the province receives its electric service from B.C. Hydro, a Provincial Crown Corporation. B.C. Hydro operates under the *Hydro and Power Authority Act* and is subject to regulation by the BCUC. At the time Order No. G-29-98 was issued, the Commission was considering its Decision on B.C. Hydro's Wholesale Transmission Services ("WTS")

Application, following a nine-day public hearing in January, 1998. That Decision was released on April 23, 1998.

Also on April 23, 1998, a pre-hearing conference was held to consider WKP's Transmission Access Application. On May 7, 1998, the Commission issued Order No. G-44-98, directing that WKP re-file its access application by July 31, 1998, taking account of the BCUC's April 23, 1998, Decision and the related Order No. G-43-98.

On July 31, 1998, WKP filed two distinct applications pertaining to electricity market reform: the Access Principles Application ("APA") and the Transmission Access Application ("TAA"). The APA was very brief, relating primarily to the treatment of generation assets in an open access environment. The TAA concerned the terms and conditions of non-discriminatory access to the transmission system, and the pricing of transmission services.

Commission Order No. G-73-98, dated August 20, 1998, established regulatory timetables for both the APA and TAA. The APA became the subject of a Negotiated Settlement Process, which was held on September 23 and 24, 1998. As these negotiations failed to reach a consensus, the Commission directed, by letter dated October 15, 1998, that the TAA hearing set to begin on October 19, 1998, would begin with evidence and cross-examination on unresolved APA issues.

At the outset of that hearing, however, several parties proposed that further negotiations might be a more suitable means of proceeding with the APA. These negotiations, directed by the Commission on October 21, 1998 (T: 441), and held on November 3 and 4, 1998, produced a Proposed Settlement Agreement ("PSA"). This document was also opposed by some parties.

After canvassing Registered Intervenors for their suggestions on further process, the Commission issued Order No. G-113-98, setting the PSA down for public hearing, commencing on February 10, 1999, in Kelowna, B.C. That hearing lasted one and one-half days and included oral final argument. A Commission Decision on the PSA released concurrently with this Decision under Order No. G-27-99.

As stated, the TAA was reviewed at a public hearing which began on October 19, 1998, in Kelowna. There were two and one-half hearing days, during which the Commission heard from two WKP witness panels – one addressing policy issues, and the other referencing more technical questions. As well, the Commission heard evidence from the Association for the Advancement of Sustainable Energy Policy ("AASEP"). B.C. Hydro, the only other party to file evidence, was not asked to produce a witness for

cross-examination. The evidentiary portion of the hearing ended on October 21, 1998, with written final argument received thereafter.

1.2 Description of Application

WKP has applied to the BCUC pursuant to the *Utilities Commission Act* (“the Act”) – and, in particular, section 61 – for an order granting transmission service to the following Eligible Customers:

- Wholesale Customers (i.e., customers that purchase for the purpose of re-selling to retail customers);
- Large Retail Customers (i.e., customers served under one of Rates Schedules 31, 33, 36, or 37);
- Power Marketers; and
- Independent Power Producers.

The open access tariff proposed by WKP is modeled on the United States Federal Energy Regulatory Commission (“FERC”) *pro forma* tariff set out in FERC Order No. 888-A. This is the same model used by B.C. Hydro for its WTS tariff. As a result, the Utility describes its Application as similar in form and substance to a tariff that has already been approved by the Commission. In addition, both B.C. Hydro and WKP stated in their applications that the FERC model has become the industry standard in North America.

The following points summarize WKP's Transmission Access Application.

- WKP's Transmission Access Application proposes two forms of service: Network Integration Transmission Service (“Network Service”) and Point-to-Point Transmission Service (“Point-to-Point Service”). Network Service does not require Eligible Customers to specify their Point(s) of Receipt or Delivery, facilitating the economic dispatch of their own commodity resources to their load requirements. Network Service is charged on a load ratio share of the aggregate network revenue requirement and is available with a minimum term of one year.
- Point-to-Point Service involves the reservation and transmission of energy and capacity from Point(s) of Receipt to Point(s) of Delivery according to the specifications of the Eligible Customer. Point-to-Point Service is available on a firm or non-firm basis. It is also broken at a one-year period between short- and long-term service. Discounting of Short-Term Point-to-Point Service is available under certain conditions. Unlike B.C. Hydro's WTS, which defines a single class of Eligible Customer, WKP specifies three rate classes for its Point-to-Point Service.

- Ancillary Services are a necessary part of transmission service. WKP proposes to require that Transmission Customers purchase two Ancillary Services (Scheduling, System Control, and Dispatch; Reactive Supply and Voltage Control from Generation Sources) from the Utility and obtain a further four (Regulation and Frequency Response; Energy Imbalance; Operating Reserves – Spinning; Operating Reserves – Supplemental) from either self-supply or a third-party. WKP will arrange these third-party purchases for an agency fee.
- WKP proposes to charge for real power losses – the difference between the amount of power delivered to the Point(s) of Delivery and the amount received at the Point(s) of Receipt – on an incremental basis. That is, losses will be calculated case-by-case considering the effect that a given transaction has on the level of losses within the system. WKP proposes that the transmission customer be required to replace losses in kind. This approach differs from that taken in B.C. Hydro's WTS tariff. Under those tariffs, losses are charged at an average system rate and may be purchased under a published tariff.
- A 1997 Cost of Service Analysis (“COSA”), inflated by 1.1 percent to reflect the 1998 general rate increase, is the basis for WKP's proposed transmission service rates. At the B.C. Hydro WTS hearing in January, 1998, the functionalization of generation related transmission assets (“GRTAs”) and Demand-Side Management (“DSM”) costs were major issues. WKP has proposed functionalizing its “river lines” (those transmission assets that connect generation facilities on the Kootenay River with the Tadanac switching station in Trail) in a manner consistent with the Commission’s Decision on B.C. Hydro's WTS Application. However, it has proposed functionalizing 15 percent of DSM costs to transmission, compared with a 10 percent figure that the Commission directed for B.C. Hydro.
- Normally, utilities undertaking open-access are required to functionally separate their generation and transmission functions. This is necessary to ensure non-discriminatory access for all eligible users of the transmission system. WKP is not proposing to take this step, arguing that the costs of such an action would outweigh any benefits that could reasonably be expected. Instead of functional separation, WKP has proposed to address non-discriminatory access through the use of a Code of Conduct and an Open Access Council. The Open Access Council was proposed in the original Application, later withdrawn, and subsequently re-introduced by the Utility in reply argument. In addition, WKP proposes to use an Open Access Same-Time Information System (“OASIS”) to manage access to the transmission system and the exchange of relevant information, including discounting offers.

- With the TAA, WKP is proposing a change in its policy respecting system expansion and modification. Where previously the costs of system expansions have been averaged across all customers, the TAA proposes that customers pay directly for expansions or re-enforcements that they specifically trigger. WKP believes that the proposed Terms and Conditions address this policy adequately for industrial customers. For wholesale customers, the Utility argues that system expansion or extension costing issues should be resolved in the context of contract negotiations.

2.0 COMMISSION JURISDICTION AND ELIGIBILITY CONDITIONS

WKP's TAA proposes open transmission access for both wholesale and large retail customers within the Utility's service area. The Commission has already established wholesale transmission tariffs within British Columbia.

2.1 Commission Jurisdiction

The question of the Commission's jurisdiction to consider retail access was not widely addressed during the TAA hearing. The issue did, however, receive considerable attention in the argument of the Applicant, and that of some intervenors.

WKP's belief that the Commission has jurisdiction to approve retail access turns on the legislative distinction between wholesale and retail access. The Utility asserted that no such distinction can be found and, as such, it follows that the jurisdiction to approve wholesale access exists in tandem with the jurisdiction to approve retail access. In fact, the Utility stated that if the BCUC lacks the jurisdiction to approve retail access, it also lacks the jurisdiction to approve wholesale access (WKP Final Argument, p. 5). With this perspective, WKP then approached the issue in the context of the Commission's jurisdiction to approve transmission access generally.

That authority, the Utility stated, can be found within the Act. Specifically, section 70 provides the Commission with the jurisdiction to grant open access, but only for customers that are not public utilities. In the case of WKP, this excludes Princeton Light and Power Company, Limited ("PLP") from eligibility. Section 27 offers more latitude, so that under this section, the Commission could approve an open access tariff for which PLP was deemed to be an Eligible Customer. Alternatively, WKP stated that section 23 is broad enough to allow the Commission to make an order granting open access without relying on either sections 27 or 70. Moreover, a complaint under section 25 with reference to section 59 would afford to the Commission the authority to grant a broad order directing open transmission access (WKP Final Argument, pp. 4-8).

A number of intervenors also held that the BCUC has jurisdiction to approve retail access. The Joint Industry Electricity Steering Committee (“the Committee”) based its position on an argument broadly similar to that of WKP: namely, that there is nothing in the Act that either prevents the Commission from approving retail access or requires any direction from the government prior to its implementation. Indeed, the Committee adopted WKP's legal argument on this issue (the Committee Final Argument, p. 1).

B.C. Hydro, however, stated that while it shared the Utility's conclusions, it did not agree with all aspects of WKP's argument. B.C. Hydro did not, however, elaborate on the nature of these disagreements (B.C. Hydro Final Argument, p. 7).

The only substantive argument against the Commission's jurisdiction to implement retail access came from the Consumers' Association of Canada (B.C. Branch) et al. [“CAC (B.C.) et al.”]. The CAC (B.C.) et al. argued that the jurisdiction to provide transmission access to wholesale customers and other utilities can be found in section 27 of the Act. Moreover, it argued that access for independent power producers and marketers can be found in section 23(1)(g)(ii) [CAC (B.C.) et al. Final Argument, pp. 3 and 4].

However, the CAC (B.C.) et al. argued that only section 70 of the Act offers any opportunity for the Commission to implement direct retail access, and that section is not relevant to this Application because it anticipates a specific application by a specific customer – not a general application by the supplier. The CAC (B.C.) et al. noted that there is no such application before the Commission at this time [CAC (B.C.) et al. Final Argument, p. 4]. The CAC (B.C.) et al. also argued that section 23 of the Act does not grant the Commission policy-making powers, but merely underscores its general supervisory role [CAC (B.C.) et al. Final Argument, p. 3].

More generally, the CAC (B.C.) et al. argued that for the Commission to implement retail access of any kind would represent an intrusion into policy-making. It argued that by not implementing recommendations from the Task Force report, the government has already rejected direct access for retail customers as a matter of policy [CAC (B.C.) et al. Final Argument, pp. 1 and 2].

In testimony at the hearing, WKP disputed this view, arguing that the provincial government had asserted no policy position on retail access and had left the issue for others to decide (T: 105). The Committee noted that, whatever the merits of the disagreement between WKP and the CAC (B.C.) et al., there is no statement of government policy on the record or, to the Committee's knowledge, anywhere else (the Committee Final Argument, p. 2).

The Interior Municipal Electric Utilities (“IMEU”) elaborated on this position, arguing that the government had ample opportunity, including the opportunity to make representations at the hearing, if it wished to impose legislative or regulatory controls or restrictions on direct access. It chose not to do this (IMEU Final Argument, p. 3).

2.2 Eligibility and Availability for Retail Customers

WKP has presented in some detail – in its filed evidence, at the hearing, and in argument – its reasons for wishing to extend open access to four of its large retail customers.

According to the Utility, it is inherently beneficial for a customer to be granted open access, even if that customer exercises its choice by electing to stay with bundled Utility service. Specifically, competitive pressures force the Utility to improve its products and service, to the benefit of those customers who choose to remain with it. This aspect of open access, the Company suggested, has already been experienced by WKP's wholesale customers (T: 135 and 136).

WKP believes that these benefits should be extended to large retail customers since, in terms of voltage or load characteristics – commonly used criteria for determining levels of access – wholesale customers are indistinguishable from large retail customers. Moreover, offering access to large retail customers would complement government policy, which the Company characterized as supportive of enhanced opportunities for industrial customers (T: 104).

Several intervenors commented in argument in support of WKP's position. The Committee reiterated WKP's arguments regarding the benefits of choice, and emphasized the positive message that offering that choice to industrial customers would send to business interests in the province. The Committee also took up WKP's argument concerning the similar characteristics of wholesale and large industrial loads, and argued that to offer access to one group but not the other would constitute undue discrimination. In addition, the Committee noted that WKP's proposal would extend open access to only four industrial customers representing just 4 percent of the Utility's load. Given this, the Committee argued that there is no reasonable likelihood that allowing this limited form of retail access would have detrimental effects on other customer groups (the Committee Final Argument, pp. 2 and 3).

The Columbia Power Corporation expanded on this final point, noting that the settlement agreement or decision on WKP's APA offers the Commission the opportunity to protect customers that remain on bundled utility service. If this protection is sound, the CPC argued, then there is no technical reason to restrict industrial access (CPC Final Argument, p. 4).

In contrast to other intervenors, the CAC (B.C.) et al. argued that even if the Commission believes that it has the jurisdiction to extend direct access to retail customers, it should decline to do so at this time. This view is held for three basic reasons. First, while there is some evidence for the desire for choice among the industrial customers for whom access is proposed, there is only a limited indication of a desire to exercise that choice by leaving bundled Utility service. Second, restructuring is a tricky business, as the winter power shortage problems projected for Alberta demonstrate. The CAC (B.C.) et al. implored the Commission to act with caution before embarking on this “slippery slope”. Third, WKP’s application is not the place to be making policy that could have significant implications for B.C. Hydro and its customers [CAC (B.C.) et al. Final Argument, p. 5].

In its reply argument, WKP addressed the CAC (B.C.) et al.’s third point. The Utility argued that the TAA only requires the Commission to make a determination concerning access for the industrial customers of WKP. Industrial access elsewhere in the province may be the subject of future applications, but the question has no bearing here (WKP Reply Argument, p. 5).

Further, the Company asserted that the CAC (B.C.) et al. position reflects a misunderstanding of the reciprocity provision of FERC’s *pro forma* tariff. The Utility noted that approving industrial access on WKP’s system does not require industrial access elsewhere in B.C. Indeed, the reciprocity principle has no implications for other utilities unless they choose to sell to an industrial customer located in the WKP service area (WKP Reply Argument, p. 6).

2.3 Commission Determinations

The Commission has reviewed the legal arguments put forward by WKP and Registered Intervenor with respect to its ability to approve retail access and has concluded that it has the power to do so under the Act on the basis of statutory interpretation put forward by WKP and adopted by the Committee. As a result, the question before the Commission is not whether it has the statutory authority to order retail access for WKP’s service area but whether such access is in the interest of the Utility’s ratepayers.

Retail access has been the subject of significant debate within the province. The advantages and disadvantages of retail access formed part of the terms of reference of the 1995 Electricity Market Structure Review undertaken by this Commission. It also formed part of the terms of reference of the 1997 B.C. Task Force on Electricity Market Reform, with the Final Report of the Advisor recommending a phasing-in of limited retail access. In both cases the government has chosen not to respond to either report with a direction to implement or not to implement retail access.

Certain parties have interpreted the lack of a formal government direction to implement retail access as an indication that the government does not wish to see retail access implemented anywhere within B.C., i.e., that retail access is contrary to public policy. Accordingly, these parties argue that the Commission should deny the retail access portion of WKP's Application.

The Commission takes a different view. In its view, its mandate is to act as an independent body, using its best judgement to decide the questions before it. While the Commission, under section 3 of the Act, must "comply with any general or special direction, made by regulation of the Lieutenant Governor in Council, with respect to the exercise of its powers and functions", in the absence of such a direction, the Commission must assume that the desire of the government is for the Commission to use its own best judgment.

The Commission has received no special direction from the provincial government nor any direct evidence from the government with respect to the issue of retail access. As a consequence, the questions for the Commission to decide are whether the extension of retail access will provide any benefits to any ratepayers and whether any other ratepayers may suffer harm.

In support of the extension of access, the evidence before the Commission is that the Utility wishes to provide retail access to its largest retail customers and that potential alternate suppliers wish to have access to the large retail customers. In addition, there is some limited evidence that large retail customers within WKP's service area wish to have the choice available to them. Finally, there has been no demonstration that the extension of access to large retail customers will adversely affect other WKP ratepayers.

In opposition to the extension of access, the evidence before the Commission is that the extent to which access is likely to be exercised by the large retail customers is limited. Retail access in the WKP service area would, nonetheless, still be seen as precedent setting.

On balance, the Commission finds that the expected limited use of access by WKP's four large retail customers is an insufficient reason to deny these customers the choice of suppliers that both the Utility and potential suppliers wish to establish. Even though the industrial customers may not exercise the option to leave Utility service, the Commission is of the view that allowing the customer the option is desirable since it allows the customer to examine alternatives and, at the same time, provides an additional incentive to the Utility to provide competitive and efficient service. **Therefore, the Commission approves the extension of transmission access to WKP's large retail customers.**

3.0 TRANSMISSION REVENUE REQUIREMENT

3.1 Overview

The proposed transmission rates of WKP are derived using the Unbundled Cost of Service Analysis (“COSA”) that is Appendix A of Exhibit 1. This study was designed to fairly portray each customer class’ cost structure on an embedded cost basis.

The COSA used in this Application was originally prepared by WKP using a forecast 1997 test year. To update the study to a 1998 forecast test year, the functionalized costs by class were increased by 1.1 percent, reflecting WKP's approved general rate increase (Exhibit 1C, Tab 3, pp. 1 and 2). The Utility does not believe that using a year-old cost study as the basis for rate-making results in any material change in results (Exhibit 1C, Tab 4, p. 2).

Some further amendments to the 1997 COSA were also necessary in order to calculate transmission service rates. In particular, WKP disaggregated the distribution substation function from the distribution function to reflect the fact that some wholesale customers take supply at the high-voltage side of the distribution substation.

As well, the control room function has been disaggregated – the 1997 COSA functionalized WKP’s cost of service into power supply, transmission, distribution, and customer – to reflect the cost of operation and dispatching. This adjustment takes revenue requirement away from both the transmission and generation revenue requirements (Exhibit 1A, p. 21).

The COSA filed with the TAA was also filed in WKP's Rate Design and New Service Options Application. That Application was resolved through the Commission’s Negotiated Settlement Process, with the resulting settlement agreement specifying that no rate-design precedents had been established. Therefore, WKP stated explicitly in its pre-hearing evidence that it viewed the TAA as the appropriate forum for parties to challenge any aspect of its cost-of-service modeling (Exhibit 1C, Tab 1, p. 4).

The CAC (B.C.) et al. disagreed with this view, stating that it did not feel that the TAA hearing was the appropriate place to examine WKP's cost of service study in detail (T: 116). Indeed, the CAC (B.C.) et al. stated that if the Commission held this hearing to be the one and only opportunity for intervenors to bring evidence and cross-examine on the COSA, then the CAC (B.C.) et al. would request an adjournment of the hearing for the purpose of calling evidence (T: 119). The CAC (B.C.) et al. later determined that it would not seek an adjournment over this issue (T: 231).

3.2 Generation Integration Assets

WKP's river lines interconnect generation facilities on the Kootenay River with the Tadanac switching station at Trail. The lines (numbers 1, 2, 6, 7, 8, 25, and 26) have been re-functionalized by the Utility to generation (from transmission), recognizing that they perform the function of generation integration (Exhibit 1C, Tab 4, p. 2). According to WKP, these assets are analogous to B.C. Hydro's GRTAs (T: 346 and 347), which the Commission's April 23, 1998, WTS Decision ordered should be functionalized entirely to generation.

The treatment of the river lines was not widely explored in the hearing. The CAC (B.C.) et al. did, however, investigate the use of these lines as part of the integrated transmission network, in particular to serve the City of Castlegar. Under cross-examination, WKP confirmed that Castlegar is served from these lines. However, the Utility stated that roughly 70 percent of river line use is for generation integration, and that the functionalization decision was based on predominant use (T: 267 and 268).

3.3 Commission Determinations

The Commission accepts that the river lines should be functionalized entirely to generation. Despite the use of these lines to service the City of Castlegar, the undisputed evidence of the Utility is that their predominant use is for generation integration. In this respect, the Commission accepts that the river lines are analogous in primary function to the GRTAs of B.C. Hydro, and concludes that the assets of the two utilities should be treated in a like manner.

Therefore, the Commission directs that WKP's Lines 1, 2, 6, 7, 8, 25, and 26 are to be functionalized 100 percent to generation.

3.4 Demand-Side Management Assets

By Commission direction (Order No. G-47-89), Demand-Side Management ("DSM") expenditures must pass a full cycle cost-benefit analysis, where benefits are defined as the avoided commodity purchases plus the value of deferred capital expenditures. Using this foundation, WKP has chosen to functionalize DSM costs (the majority of which are capitalized and included in rate base) based on the ratio of benefits from avoided commodity purchases to the value of benefits from deferred capital expenditures. This approach results in 85 percent of the costs being classified as commodity, and the remaining 15 percent being classified as transmission.

In the April 23, 1998 B.C. Hydro WTS Decision, the Commission determined that it was appropriate to allocate 10 percent of the annual capitalized costs of DSM to the transmission revenue requirement (“TRR”). Specifically, the Commission wrote: “This 10 percent should not be seen as the Commission’s final determination on this issue, but rather as a place holder for a value that will need to be determined as market reforms unfold.” In reaching this conclusion, the Commission stated:

“All parties to this hearing appear to agree that if retail access comes to B.C., then DSM costs must remain in the regulated (i.e., transmission) part of the business, or be collected through some form of non-bypassable charge. However, given the current uncertainty about the direction of market reforms in B.C., the Commission believes that it would be inappropriate to anticipate retail competition and allocate all DSM charges to the TRR.” (Commission Decision, B.C. Hydro WTS Application, April 23, 1998, pp. 28 and 29)

According to WKP, the proposed 15 percent figure contained in their Application is consistent with the Commission’s prior determination (Exhibit 1A, pp. 20 and 21).

In addition, Original Sheet Z of WKP’s Electric Tariff requires Eligible Customers to pay the unamortized balance of DSM financial incentives if more than half of the electricity previously provided by WKP is replaced by another source, including self-generation or another supplier (referred to in testimony and evidence as the “50 percent rule”). This tariff provision is the result of negotiations between the Utility and its wholesale customers and has received previous Commission approval. WKP has indicated that it does not believe that the 50 percent rule should be open to reconsideration as part of this proceeding (T: 150).

AASEP argued against the WKP proposal and has offered an alternative proposal. Specifically, AASEP has stated that transmission access should not be allowed on the WKP system unless the Utility meets the following conditions (AASEP Final Argument, p. 3):

- DSM should be provided on a non-discriminatory basis; and
- The Utility should be ordered to remove Schedule Z from its contract Terms and Conditions.

As well, AASEP believes that one of the following two conditions must be satisfied:

- The Commission should assign 100 percent of the Utility’s DSM costs to transmission and this should be recovered in transmission rates on a costs-follow-benefits basis; or
- The Utility should be directed to develop and file a substitute for Schedule Z that is designed to recover a proportional share of DSM costs based on kilowatt hours received.

AASEP's criticisms of the Company's DSM proposal focused on three areas: stranded costs, loss of DSM benefits to core customers, and what AASEP calls the "free rider problem". AASEP's concerns with stranded costs centred on WKP's proposed functionalization of DSM assets, and on the provisions of Schedule Z. In particular, AASEP stated that the proposed treatment of DSM cost recovery allows Eligible Customers to avoid making any contribution to the 85 percent of DSM costs that would be functionalized to generation. Moreover, according to the terms of Schedule Z, a departing customer is not required to make any contribution to DSM cost recovery until it removes half of its load in any one year – that is, the provisions of Schedule Z are not triggered by the cumulative removals of load over a succession of years (AASEP Final Argument, p. 11).

AASEP's latter two concerns – implications for core customers and the risk of departing customers "free riding" – relate primarily to issues being considered under the Access Principles Application. Notably, AASEP is concerned that Eligible Customers choosing to purchase power from sources other than WKP will be allowed to depart following a notice period that is shorter than the amortization period for a typical DSM project, thus discouraging WKP from making DSM investments. Further, AASEP argued that allowing departed customers back onto the WKP system at embedded cost rates will discourage customers from undertaking their own DSM investment as an alternative to WKP supply (AASEP Final Argument, p. 12). AASEP also argued that the right to return to embedded cost service creates an on-going DSM benefit to departed customers, for which they will not be paying their fair share (AASEP Final Argument, p. 13).

In its final argument, the Committee opposed AASEP's recommendations, suggesting instead that the DSM proposals of WKP are appropriate for now. A more thorough investigation of DSM allocation issues should await a full enquiry, the Committee argued, and this enquiry should, itself, await the maturation of electricity market reforms. The Committee was also highly critical of the evidence submitted by AASEP, questioning its quality and accuracy, and suggesting that the Commission ignore it (the Committee Final Argument p. 6).

In its reply argument, WKP addressed the recommendations raised by AASEP. In this context, the Utility reiterated its opposition to any adjustment to Schedule Z, pointing out again that this element of the Terms and Conditions is the product of negotiations between WKP and its wholesale customers, and has been approved by the Commission already (WKP Reply Argument, p. 7).

WKP was also critical of the AASEP proposal that calls for the Commission to:

- (a) assign 100 percent of the Utility's DSM costs to transmission to be recovered in transmission rates on a costs-follow-benefits basis; or

- (b) direct WKP to develop and file a substitute for Schedule Z that is designed to recover a proportional share of DSM costs based on kilowatt hours received.

The Utility stated that recommendation (a) would be inconsistent with the Commission's usual practice of allocating costs according to cost causation. WKP did not dispute the Commission's jurisdiction to move away from its traditional rate-setting principles, but did oppose such a change (WKP Reply Argument, p. 8).

WKP described AASEP's recommendation (b) as a form of non-bypassable charge, with kilowatt hours as the billing units. The Utility stated that such an approach is unnecessary in the context of the TAA. At the same time, WKP agreed with AASEP that the Utility should continue to provide DSM on a non-discriminatory basis, and conceded that if open access results in a material loss of revenues for DSM programs, then further consideration of the issues may be necessary (WKP Reply Argument, pp. 7 and 8).

In addition to these views, the Utility adopted the Committee's final argument with respect to AASEP's recommendations (a) and (b), above (WKP Reply Argument, p. 8).

3.5 Commission Determinations

The Commission reiterates its earlier position that it may be necessary to functionalize all DSM costs to the regulated part of the business, or to collect for these costs through some form of non-bypassable charge. However, the Commission also believes that the direction and pace of market reforms remains an open question, and that it would be inappropriate to anticipate full retail access at this time by functionalizing all DSM costs to the TRR, or by creating some form of non-bypassable charge.

While the Commission is not entirely persuaded by the ratio-of-benefits approach taken by WKP to determine the functionalization of its capitalized DSM costs, the Commission recognizes that any approach will involve a degree of judgement. As well, the Commission believes that only relatively small benefits might result from trying to fine-tune WKP's proposed methodology. Moreover, these benefits would likely be short-lived, given the transitional nature of these issues in the evolving market environment. Therefore, the Commission is satisfied with the approach proposed by WKP.

With respect to Schedule Z, the Commission recognizes AASEP's concerns regarding the risk that departing Eligible Customers might escape responsibility for stranded DSM costs. However, the Commission is also persuaded by the arguments that Schedule Z is the product of negotiations between WKP and its wholesale customers, has received prior Commission approval, and should not be rescinded

or amended in a proceeding separate and apart from the context of the negotiations in which it was conceived. The Commission also notes that the stranded cost provisions of the Access Principles Application Proposed Settlement Agreement approved by Commission Order No. G-27-99 provide further protections against stranded and unfunded DSM assets.

Therefore, the Commission accepts WKP's proposal to allocate 15 percent of the annual capitalized DSM costs to the transmission revenue requirement. As well, the Commission declines to order that Schedule Z be rescinded or replaced.

4.0 DESIGN OF TRANSMISSION SERVICES AND RATES

4.1 Background

Under the Transmission Access Application, WKP has applied for approval of a Network Integration Transmission Service, a Point-to-Point Transmission Service, and six Ancillary Services to facilitate access. The Application does not propose a Loss Compensation Service but instead proposes that customers taking transmission service make-up losses in kind.

4.2 Network Integration Transmission Service ("Network Service")

Network Service is defined as service which will provide the Transmission Customer with the ability to integrate, economically dispatch, and regulate its current and planned network resources to serve its network load requirements in a manner comparable to that of WKP's Native Load Customers (Exhibit 1C, Tab 2, p. 2). Accordingly, under the terms of the Application, customers are not required to reserve transmission capacity at specific Point(s) of Delivery and Receipt. Network Service is proposed to be offered only on a firm basis (Exhibit 1A, Appendix C, p. 54) and for a minimum of one year (Exhibit 1A, Tab 6, p. 15). It is not proposed to offer Network Service for sales of capacity and energy to non-designated network loads nor is it proposed to use Network Service to provide direct or indirect provision of transmission service by the Network Customer to third parties (Exhibit 1A, Appendix C, p. 55).

As indicated above, WKP plans to serve its Native Load Customers under the same terms and conditions as apply to Network Service with some limited exceptions. These exceptions relate to items which would otherwise require WKP to perform a credit check on itself, extend to itself letters of credit for new facilities or upgrades, etc. (Exhibit 1B, BCUC IR#1, p. 20).

In order to determine the Network Service Rate, WKP established the total network revenue requirement. Specifically, WKP established its total cost of service, which it then functionalized into the categories of power supply, transmission, distribution, substation, customer and control room costs, as discussed in Chapter 2. From the functionalized cost of service it subtracted the revenue which it expected to obtain from the use of the Point-to-Point tariff. WKP then established a class-specific network revenue requirement. For those customer classes taking at transmission voltage, the network revenue requirement was established as the transmission revenue requirement plus the customer revenue requirement. For those customers not taking at transmission voltage, the network revenue requirement also included the substation revenue requirement (Exhibit 1A, Tab 7, pp. 23 and 24). The specific charge for Network Service reflects the Network Customer's load ratio share, defined as the 12-month rolling-average of the customer's peak requirements coincident with the system peak.

As stated in the discussion of the discount policy that follows, WKP does not propose to discount the charge for Network Service.

The Commission concludes that the Network Integration Transmission Service proposed by WKP is in the public interest and, therefore, accepts the WKP proposal.

4.3 Point-to-Point Transmission Services

4.3.1 Description of Rates

Point-to-Point Service is defined as the reservation and transmission, on both a firm and non-firm basis, of capacity and energy from Point(s) of Receipt to Point(s) of Delivery, as specified by the Transmission Customer, for terms of one hour up to one year or greater (Exhibit 1C, Tab 2, p. 2). Under the terms of the Application, Firm Service is accorded the same priority as the service provided to Native Load Customers while Non-Firm Service will be available only for the purpose of supplying non-firm requirements and will be subject to transmission capability constraints and curtailment for economic reasons.

Under the terms of the Application, Long-Term Firm Point-to-Point Service will be available for periods of one year or longer, on a first-come, first-served basis. In contrast, Short-Term Firm Service will be available for periods of one hour up to one year and will be conditional upon the length of the requested transaction, with requests for longer term service given priority over requests for shorter term Firm Service. However, customers who made reservations in advance and are then bumped due to a longer term service request will have the right to meet the terms of the more attractive transaction so as to maintain service. In addition, both Long- and Short-Term Firm Point-to-Point reservations can be modified to

Non-Firm reservations at secondary Points of Receipt at no additional charge and, unlike Network Service, resale of Firm reservations will be allowed.

Short-Term Non-Firm Service will also be available for periods of one hour up to one year. As with Short-Term Firm Service, longer term Non-Firm Service requests will be assigned a higher priority than shorter term Non-Firm reservations, although customers will have the right to meet the terms of the competing request. In the event the transmission system is constrained, competing requests of equal duration will be prioritized based on the price.

As discussed with respect to Network Service, all Point-to-Point rates were derived by functionalizing WKP's cost of service into power supply, transmission, distribution, substation, customer and control room cost categories. Each of these functionalized cost categories was then allocated amongst the customer classes considered in this Application. Specific rates were derived by determining which functionalized cost categories were relevant to the provision of the transmission service to each customer class and what were the appropriate billing determinants. Transmission, substation and customer costs were determined to be the relevant cost categories for customers using substation equipment. For customers not using substation equipment, only transmission and customer costs were included (Exhibit 1A, Tab 7, p. 25). The appropriate billing determinants were determined to be kV.A of reserved capacity (transmission and substation costs) and Points of Delivery (customer costs).

All proposed Point-to-Point Service rates consist of a fixed monthly customer charge per Point of Delivery and a charge per kV.A of reserved capacity billing demand. For Long-Term Firm Service, the proposed charge per kV.A of reserved capacity will be recovered on a monthly basis. For Short-Term Firm and Non-Firm Service, the charge per kV.A of reserved capacity can also be recovered on a weekly, daily or hourly basis.

The proposed dollar value of the monthly customer charge is the same for all Point-to-Point rates. WKP acknowledged that this means that a Transmission Customer who takes Firm Service for more than a year is subject to the same monthly customer charge as a customer who takes Non-Firm Service for one hour. WKP stated that it recognizes that this could lead to an exorbitant rate for short-term transactions but believes it is required to recover all the costs that are associated with supplying the customer, e.g., meter reading, billing, administrative costs etc., and to ensure that other customers are held harmless (T: 335-337).

In general, the proposed dollar value of the charge per kV.A of reserved capacity is the same for Long-Term Firm, Short-Term Firm and Non-Firm Point-to-Point rates when calculated on a monthly basis and

the same for Short-Term Firm and Non-Firm when calculated on a weekly, daily or hourly basis. WKP acknowledged that as long as the price of Short-Term Firm and Non-Firm Services is the same, it is unlikely that a customer would choose Non-Firm over Firm Service (T: 330).

4.3.2 Discounting Policy

Under certain circumstances, WKP proposes to discount the charge per kV.A of reserved capacity for Short-Term Firm and Non-Firm Point-to-Point Service. Specifically, the charge per kV.A of reserved capacity would be discounted if, (i) the customer can demonstrate that an alternative transmission path with another transmission provider is available at a lower cost; (ii) the lack of a discount will result in curtailment of transmission use for economic reasons; and (iii) the increased usage will not add to system costs over the term requested. WKP indicated that all three conditions would need to be met before a discount would be offered and that this would likely mean that discounts would not occur (T: 330).

WKP indicated that the amount of the discount would be the subject of negotiation with WKP attempting to maximize the revenue generated. As a result, factors such as the likely price on alternate paths and the load carrying capability of both WKP and alternate paths over time would be considered (Exhibit 1B, BCUC IR#1, p. 13). In no case would the discount ever result in a usage charge below 2 mills per kW per hour for Short-Term Firm Service and 1 mill per kW per hour for Short-Term Non-Firm Service. All discounts would be posted on an OASIS.

WKP stated that it is not proposing to offer discounts on either Network or Long-Term Point-to-Point Transmission Service since it does not believe that discounts would result in an increased use of the transmission system or a more efficient operation (Exhibit 1C, Tab 3, p. 4) but could lead to Transmission Customers bearing less than their fair share of the revenue requirement.

Several intervenors took exception to WKP's discounting policy. The IMEU appeared to focus on the lack of a long-term discount policy and suggested that questions of providing the right pricing signals for siting new loads and developing new supply need to be addressed. The IMEU argued that where the existing system is underutilized and an opportunity develops whereby discounting can create an economically more efficient result, then discounting should be sought and permitted (IMEU Final Argument, p. 6). The IMEU was supported in this view by the Committee which stated that it might be appropriate and desirable to provide a long-term discount where it could have cost benefits to WKP. The Committee recommended that the Utility be required to file a report with the Commission on this matter within 90 days of B.C. Hydro filing its revised long-term discount policy (the Committee Final Argument, pp. 3 and 4).

With respect to the proposed short-term discount policy, the Committee expressed concern that it will be difficult to ensure that it is not discriminatory. Accordingly, the Committee suggested that the Commission require WKP to report all discounting transactions, with sufficient information for the Commission to be able to determine if discounting is being offered on a non-discriminatory basis. In particular, the Committee suggested that WKP be required to provide information with respect to the date, time, size and route of transaction, together with a quantitative description of available capacity and market conditions at the time the discount is offered (the Committee Final Argument, p. 4).

4.3.3 Commission Determinations

As indicated in the above discussion, four major concerns were raised at the hearing with respect to WKP's Point-to-Point Transmission Service. These concerns are: (i) is the inclusion of the same dollar value monthly customer charge in all Point-to-Point rates appropriate; (ii) is the lack of a price differential between firm and non-firm Point-to-Point rates appropriate; (iii) is the lack of a long-term discount policy appropriate; and (iv) is the proposed short-term discount policy appropriate?

In coming to its determinations with respect to each of these issues, the Commission has been cognizant of the specific situation of the Utility. Specifically, the Commission has examined the extent to which transmission service transactions involving WKP are likely to be transactions which involve the flow of power through WKP's service area to another service area (instead of beginning or terminating within the WKP service area), and the extent to which there are likely to be constraints on the WKP transmission system. This first issue is important since flow-through transactions are likely to increase the use of WKP's transmission system while transactions which begin or end within the service territory are likely to be substitutes for transactions which are already occurring. The second issue is important since a lack of constraints suggests that in most cases transmission service will be provided on a firm basis independent of the way in which it is priced. Based on the evidence before it, as well as its own knowledge of the area, the Commission expects that there will be few physical transmission constraints on the WKP system and that there will be few flow-through transactions.

Given this perspective, the Commission accepts that the inclusion of the same dollar value monthly customer charge in all Point-to-Point rates and the lack of a price differential between firm and non-firm Point-to-Point rates is unlikely to cause any appreciable reduction in the use of WKP's transmission system from that which would occur otherwise. Further, the Commission accepts WKP's argument that reducing the monthly customer charge or establishing a fixed price differential between firm and non-firm rates would lead to unacceptable revenue impacts.

The same reasoning holds with respect to the Commission's analysis of WKP's short-term discounting proposal. Although the Utility's proposal would result in discounts in only limited cases, the Commission does not believe that a more generous discount policy would act to increase the use of the system. Accordingly, a more generous discount policy would act only to decrease the amount of revenue recovered through Point-to-Point rates and increase the amount of revenue which would need to be recovered from Network and Native Load Customers.

However, the Commission believes that there may be benefit to WKP developing a long-term discount policy since such a policy may be helpful in maximizing the efficient use of the transmission system. **Therefore, the Commission directs WKP to file a long-term discount policy within 60 days following the filing of B.C. Hydro's long-term discount policy which is due April 30, 1999.**

4.4 Ancillary Services

4.4.1 Provision of Service

Ancillary Services are required to support and maintain system reliability during the delivery of electric power from source to load. As indicated above, the Application provides for six Ancillary Services. These are: (i) Scheduling, System Control and Dispatch; (ii) Reactive Supply and Voltage Control from Generation Sources; (iii) Regulation and Frequency Response; (iv) Energy Imbalance; (v) Operating Reserve – Spinning; and (vi) Operating Reserve – Supplemental. WKP proposes to offer Scheduling, System Control and Dispatch and Reactive Supply and Voltage Control from Generation Sources directly. With respect to the remaining four Ancillary Services, WKP proposes that the Transmission Customer elect to obtain the services either directly from a third party, from a third party with WKP acting as agent, or through self-supply. If WKP acts as agent, an agency fee equal to 5 percent of the value of the service or a minimum of \$1,000 per year would be charged (Exhibit 1A, Appendix A). WKP stated that it believes that 5 percent is a reasonable fee for service and would recover costs.

In support of the agency proposal, WKP stated that it believes that if a customer goes to the market for energy service, the customer ought also to go to the market for what is required to support that service (T: 73). Further, WKP stated that providing these services would impose additional costs upon WKP. WKP stated that since it is not a control area operator and operates its system under B.C. Hydro's control area, B.C. Hydro is actually providing Regulation and Frequency Response Service and Operating Reserves Services. WKP stated that it could provide these services on paper, but would have to purchase them from B.C. Hydro (T: 187) and provide them indirectly to the Transmission Customer.

Accordingly, WKP stated that it seemed more appropriate for the customer to obtain them directly from B.C. Hydro, through either Powerex or Power Supply (BCUC IR#1, p. 26).

If WKP, acting as agent, were to provide the service, WKP proposed to charge the customer the marginal cost of providing the service, in part to hold other customers harmless from the additional costs which, it maintained, would arise (T: 143).

Several parties took issue with WKP's proposal to act only as an agent for a customer with respect to the provision of Ancillary Services rather than providing these services directly. In its evidence (Exhibit 7), B.C. Hydro characterized WKP's proposal as a request to relieve WKP of the obligation to serve customers with respect to these services but noted that WKP has not specifically requested an order from the Commission requesting such relief. B.C. Hydro went on to note that there appears to be an assumption that these services can be obtained from B.C. Hydro and expressed a concern that WKP may want to transfer the obligation to provide these services on a regulated basis to B.C. Hydro. B.C. Hydro indicated that while B.C. Hydro is prepared to offer these services to WKP's customers on a market basis, it is not prepared to offer these services on a regulated basis. B.C. Hydro indicated that offering these services on a regulated basis is WKP's responsibility.

In addition, B.C. Hydro disputed WKP's contention that B.C. Hydro is actually the party providing Regulation and Frequency Response and Operating Reserves because it is the control area operator. B.C. Hydro stated that while B.C. Hydro provides the control equipment and control personnel, WKP provides the capacity from its resource portfolio for these services and that it can continue to provide this capacity. Indeed, WKP stated that it does supply Ancillary Services to current customers either from its own generation or as part of power purchases from other suppliers (T: 177) and that, if a customer left, it would have the opportunity to back-down some of its power purchases (T: 189).

As well, B.C. Hydro argued that WKP should be required to provide the Ancillary Services at embedded costs since there is not an adequate market for Ancillary Services and the lack of such services will inhibit generation-on-generation competition (B.C. Hydro Final Argument, p. 6). Further, B.C. Hydro argued that WKP had provided an insufficient basis for singling-out open access loads for incremental pricing when all other loads would receive their Ancillary Services on an embedded cost basis (B.C. Hydro Final Argument, p. 6).

Several parties held views that were similar to those put forward by B.C. Hydro. The Committee indicated that it has seen no evidence that a market for Ancillary Services exists and that it is difficult to see such a market developing (the Committee Final Argument, p. 7). Accordingly, the Committee maintained

that Ancillary Services should be priced at embedded costs. The IMEU indicated that it is willing to support the WKP proposal on a trial basis, but if there proves to be an inadequate market, the Commission should direct WKP to provide the Ancillary Services at average cost.

CBT argued that WKP's proposal is discriminatory because WKP would not be charging itself for Ancillary Services on the same basis as its Transmission Customers (CBT Final Argument, p. 5). In addition, CBT argued that if a single system operator comes into being, it is unlikely that different pricing and costing methods for Ancillary Services would be allowed within a single service territory and that the single system operator would be required to follow FERC rules with respect to Ancillary Services (CBT Final Argument, p. 7). FERC requires transmission providers to offer all Ancillary Services directly.

In response to these concerns, WKP indicated that it recognizes that there is not currently a liquid market for Ancillary Services (T: 228) but indicated that there is a developing Ancillary Services market and that there are six players interconnected with WKP who could provide Ancillary Services (T: 257). Nonetheless, WKP agreed that in circumstances where Ancillary Services are in short supply or particularly expensive, a customer may be well advised to stay with WKP's bundled service because of the potential risk associated with the cost of Ancillary Services (T: 74) and that FERC requires transmission providers under its jurisdiction to provide Ancillary Services (T: 254).

With respect to the issue of harmonization, WKP stated that Ancillary Services are not part of the agreement to harmonize rates. Instead, it is proposed that payment be made to all parties that provide these services (Exhibit 1B, BCUC IR#1, p. 10). WKP stated that, in some cases, e.g., Operating Reserves, it is expected that only one party would be providing for and charging for reserves while for other services, e.g., Scheduling Service, both parties may charge.

4.4.2 Rates for Ancillary Services

Scheduling, System Control and Dispatch are all control room functions. Accordingly, WKP indicated that the charge for this Ancillary Service was calculated by determining the total control room revenue requirement and dividing by the number of kilowatt hours forecast to be used by each of the customer classes. This resulted in rates for each of the customer classes of approximately one-half of one mill (Exhibit 1A, Tab 7, p. 27).

The Reactive Supply and Voltage Control ("RSVC") revenue requirement was estimated at 2.5 percent of WKP's generation plant revenue requirement and resulted in a rate of 0.6 mills per kW.h delivered. The RSVC charge was based on B.C. Hydro's RSVC charge adjusted to reflect the fact that some part of

WKP's generation revenue requirement is for purchased power (Exhibit 1B, BCUC IR#1, p. 11). This approach was used due to the absence of more detailed cost information (Exhibit 1C, Tab 3, p. 4).

4.4.3 Commission Determinations

In its Application, WKP has requested that its four largest retail customers be allowed direct access to its transmission system. In making this request, WKP has made reference to the value to customers of being allowed to choose their energy suppliers. In an earlier section of this Decision, the Commission agreed with this view.

In order for customers to exercise this choice effectively, customers must have access to Ancillary Services. WKP maintains that such access can be provided through the market and that provision through WKP at tariff rates would have adverse consequences on other customers. Several other parties argued that an Ancillary Services market is not yet sufficiently developed to support open transmission access and that failure to provide these services at embedded cost rates would discriminate against customers who may wish to take their load to an alternate supplier.

In determining whether to order WKP to provide all Ancillary Services at embedded cost rates or whether to approve the Application as filed, the Commission has had reference to what appears to be the overriding goal of this Application, namely the facilitation of customer choice. The question before the Commission then becomes will reliance on the market for Ancillary Services sufficiently support customer choice?

In the Commission's opinion, WKP has not adequately demonstrated that a third-party market for Ancillary Services, capable of supporting customer choice, exists. **Accordingly, the Commission directs WKP to offer all Ancillary Services at embedded cost rates, and to file such rates by June 30, 1999.**

The rates are approved for those services which WKP's Application anticipated would be provided directly by the Utility.

With respect to the harmonization of Ancillary Services, the Commission notes that in Commission Order No. G-12-99 and its attached Reasons for Decision, the Commission has determined that, at this time, each utility should charge for the Ancillary Services that it provides.

4.5 Loss Compensation

4.5.1 Description of Proposal

As indicated in WKP's Application, real power losses refer to the difference between the amounts of power received from the delivering party at the Point(s) of Receipt and the amounts of power delivered to the Point(s) of Delivery (Exhibit 1A, Tab 6, p. 17). The Application proposes that customers be responsible for the incremental losses created by the deliveries (Exhibit 1C, Tab 2, p. 5) and keep WKP whole by supplying the power losses in kind. WKP indicated that it wishes to have power losses supplied in kind since it does not have the resources to supply 'make-up' losses and would normally have to purchase them from a third party (Exhibit 1C, Tab 2, p. 5).

WKP proposed to calculate incremental power losses using transmission load flow analysis (Exhibit 1B, B.C. Hydro IR#2, p. 1). Specifically, WKP indicated that the incremental power losses would be determined for each customer, on a monthly basis, using a first-come, first-served approach to the assessment of the loss impacts of successive customers (Exhibit 1B, B.C. Hydro IR#2, pp. 4 and 5). WKP recognized that this would result in customers experiencing greater loss variability than if average losses were used (T: 248). WKP stated that it did not consider calculating incremental losses on a regional basis since it does not believe that this would be acceptable (T: 351).

In support of the use of incremental losses, WKP stated that incremental losses provide a correct price signal, which is a prerequisite to the establishment of an efficient competitive market. However, WKP recognized that incremental losses could not be posted in advance because the losses would be a function of the size of the Eligible Customers' load, the identity, size, and location of existing Transmission Customers and the selected optimal system configuration (Exhibit 1B, B.C. Hydro IR#2, p. 2). To overcome this problem, WKP stated that on the request of the customer it would carry out a system study that would indicate the level of losses for the transaction requested. WKP stated that if the customer's transmission requirement is stable, then incremental losses could be provided on a monthly prospective basis for use as a price signal. WKP recognized that this would mean that the particulars of the proposed transaction would need to be divulged to WKP in advance (T: 247).

WKP stated that it would provide a loss credit to Eligible Customers who help to lower losses on the WKP system (Exhibit 1B, B.C. Hydro IR#2, p. 2).

WKP stated that it proposes to calculate losses for Network Service at the system average loss factor, (Exhibit 1B, BCUC IR#1, p 10) but indicated that it would be making itself whole on an incremental

basis in that it would be providing the losses that are required at the time those losses are incurred (T: 240).

As with Ancillary Services, WKP does not propose to harmonize losses. WKP stated that since physical losses will be incurred on both systems as power is moved through each system, each system should be compensated for those losses (Exhibit 1B, BCUC IR#1, p. 9). Accordingly, WKP stated that it expects losses to be additive under a harmonized environment (T: 251). WKP was supported in this position by B.C. Hydro, which stated that expanding a transaction to span two service areas would tend to increase losses as the distance between generation and load is increased. As a result, B.C. Hydro argued that any attempt to harmonize loss rates has significant potential to yield inefficiencies in a way that harmonizing the basic transmission rate does not (B.C. Hydro Final Argument, p. 7).

Both the CPC and CBT argued against the adoption of incremental losses. CPC expressed concerns that charging Transmission Customers for incremental losses would be unfair since WKP would face average losses, while CBT argued that incremental losses would disadvantage most current users of the system since the losses for which they would be responsible would increase (T: 199 and 200). In addition, CBT argued that incremental losses are not compatible with the normal industry practice and that WKP has not provided compelling reasons why it would be appropriate or justifiable in the WKP service areas. Both parties argued that the incremental losses would lead to greater uncertainty for marketers since, as discussed above, the losses would have to be determined on a regular basis. Finally, both CPC and CBT argued that if a single system operator were established, losses would have to be harmonized and that the usual industry practice of average losses would most likely be adopted (CPC Final Argument, p. 5).

All other parties either supported incremental losses or took no position with respect to the use of incremental losses. However, both the IMEU and the Committee stated that the loss calculation should be harmonized to avoid over-charging (the Committee Final Argument, p. 8).

4.5.2 Commission Determinations

On balance, the Commission favours the use of incremental rather than average losses on the premise that the losses associated with transactions would be known in advance and would provide parties with a correct signal as to the cost of their transactions.

The incremental loss calculation proposed by WKP does not provide this benefit since the losses would be known with certainty only after the fact. When the lack of a correct forward looking pricing signal is coupled with the uncertainty over the amount of losses that would be faced by users of the system, the

Commission finds that the charging of incremental losses as proposed by WKP is not in the public interest. **Accordingly, the Commission directs WKP to charge system average losses.**

With respect to the harmonization of losses, the Commission notes that in Commission Order No. G-12-99, and its attached Reasons for Decision, the Commission has determined that, at this time, each utility should charge for the losses that it incurs on a non-harmonized basis.

5.0 TERMS AND CONDITIONS

5.1 Non-Discriminatory Access

Non-discriminatory access is a basic tenet of any open access transmission tariff. That is, all generators seeking to serve Eligible Customers must have comparable access to any available capacity on the transmission system. Generators with a corporate relationship to the transmission owner should not enjoy advantageous access compared with unaffiliated generators, and this fairness should be visible and apparent to all market players. In conducting its business, the transmission operator must have – or must behave as if it has – no opinion about the identity of the generators or marketers that are scheduled across its network.

In this hearing, the issue of non discriminatory access was raised in two broad areas. The first concerned the corporate, legal, or administrative arrangements that would be undertaken by WKP to ensure an arm's length relationship between its generation and transmission functions. Specifically, this turned on several needs: (i) functional separation within the Utility; (ii) a Code of Conduct to govern the relationship between these functions in the event that the functions are not physically separated; and (iii) a Code of Conduct to govern the relationship between the Utility and any marketing affiliates. A related issue was the appropriateness of a so-called Open Access Council to oversee these and other issues.

The second area of concern involved existing contractual arrangements between WKP, Cominco, and CPC/CBT for the use of certain transmission assets.

5.1.1 Functional Separation

WKP does not propose to separate its generation and transmission functions, a position it justifies, in part, on the grounds of cost. The Utility stated that a direction to separate its generation and transmission functions would require it to incur costs for additional space and personnel (Exhibit 1A, p. 31). Specifically, WKP claims capital costs of \$29,050 and an annual operating cost of \$283,200 (Exhibit 1B, BCUC IR#1, p. 16).

Against these costs, WKP proposed that only limited benefits would result from separating its generation and transmission functions. In the first instance, this view is founded on the Utility's belief that a single system operator will be in place in B.C. in the near future. With such a body operating the transmission system, WKP argued that the protections afforded by functional separation would be redundant (T: 43).

Moreover, WKP stated that even if a single system operator were not created, functional separation is not an appropriate step for the Utility (T: 43). This is because WKP expects no significant transmission constraints on its system – other than Line 11, from Trail into the Okanagan which is already being addressed in the Company's transmission plan – during the next 20 years. Absent constraints, there can be no competition for transmission and, absent competition for space, there is no need for functional separation (T: 311 and 312). In addition, the Company argued that any conflicts of interest that might exist in relationships between itself and any marketing affiliates can be adequately addressed by a limited Code of Conduct (see Section 5.1.2) and the use of an OASIS (WKP Final Argument, p. 19).

WKP elaborated on this position by identifying three possible types of transactions that might occur using the proposed open access tariff. In each case, the Utility argued that market and structural conditions are such that functional separation would have no meaningful effect on the competitive position of WKP vis-à-vis other market participants (Exhibit 1B, BCUC IR#1, p. 14).

Specifically, in the event of flow-through transactions – that is, where power is being moved through the WKP system from one side to the other – the Utility acknowledged that, theoretically, it would gain a competitive advantage from knowing sooner than others what transmission was available. But, it stated, such transactions have not happened in the past, and it is not sensible, given alternative routes, to expect that such transactions might happen in the future (T: 314).

For example, a customer would face structural impediments if it wished to ship power from the United States, through Cominco, through WKP, and into the B.C. Hydro system. Passage through the WKP system into the B.C. Hydro system is not possible, since the system is open in the Okanagan Valley. And capacity through the Canal tie is dedicated to entitlement transfers, so that route is not available, either. But these problems are moot, the Utility argued, since more logical routes, perhaps across the two 500 kV ties in the Lower Mainland, exist to move power from the United States to the B.C. Hydro system (T: 313).

A second type of transaction involves shipping power from outside WKP's system to customers within the Utility's service area. For example, this might involve the sale of power from B.C. Hydro to the City

of Kelowna. In such cases, WKP argued that a competitive supplier would simply be replacing WKP supply, so the effect on line loading would be nil. Again, without a constraint, there can be no benefit to advanced knowledge of transmission capacity availability or demand. In the event of load growth, the Utility stated that it can see no advantage to knowing that a line will become constrained, knowing also that it will be upgraded to meet the greater load (T: 316).

A third type of transaction involves shipping power from inside the system to the outside. This might be done by an independent power producer (“IPP”) located within WKP's service area, or by the Utility itself in the event it has surplus power. In fact, WKP suggested that this case is even more narrow, in that firm sales by an IPP would carry firm transmission, so any competitive concerns that might be allayed by functional separation would involve only non-firm sales by an IPP. And, according to the Utility, there are no such transactions taking place now, and none are forecast for the “indefinite future” (T: 317).

WKP acknowledged that requiring functional separation is the industry norm, and that, in the long-run, some form of functional separation may be necessary, particularly if the types of transactions that occur on the system are different from what is now expected. For this reason, WKP proposed that the Commission should view a decision to not require WKP to undertake functional separation as a short-term action that will need to be reviewed from time-to-time (WKP Final Argument, p. 19).

Most intervenors agreed with WKP's proposal to not functionally separate at this time, although almost all intervenors that commented on the issue in final argument linked their view to the creation of some other mechanism – notably a Code of Conduct – to ensure non-discriminatory access.

B.C. Hydro, on the other hand – while agreeing that WKP's stated costs of functionalization are significant in the context of the Utility – appeared to conclude that non-discriminatory open access can only occur if the Company functionally separates. To that end, B.C. Hydro suggested that the Commission grant WKP a period of time (it suggests until October 31, 1999) to file proof that a single system operator has been established that is functionally separate from WKP (at page 12 of its reply argument, WKP interpreted this definition of a single system operator to require a functionally separated Utility, although this interpretation may not be the only one possible). Should this filing not be made, then B.C. Hydro suggested that the Commission direct WKP to file a detailed plan for implementing functional separation.

In support of this position, B.C. Hydro argued that WKP has defined too narrowly the ways in which potential discrimination might arise from a mixing of generation and marketing functions with the operations of the transmission grid. B.C. Hydro argued that WKP's view of discrimination is focussed solely on price equality, while it should extend to any selective use of, or access to, information. Specifically, B.C. Hydro argued that assurances must be in place to ensure that generators or marketers in

whose welfare the transmission provider may have an interest – due to affiliation or other strategic reasons – do not gain information which gives them a preference when dealing with other generators or marketers (B.C. Hydro Final Argument, pp. 2 and 3).

B.C. Hydro disputed WKP's assertion that privileged access to information is unhelpful because no transmission constraints exist, or because use will be very limited. B.C. Hydro cited WKP's own testimony about the likelihood of transmission constraints by 2004 (T: 190), and argued that the low-use argument is self-fulfilling: if shippers are worried that the information that they provide to the transmission operator will be abused, they will simply not undertake to make shipments. B.C. Hydro also disputed the value of protections afforded by the use of an OASIS, since the requirements of these systems assume functional separation (B.C. Hydro Final Argument, p. 3).

B.C. Hydro also criticized WKP's position that so long as a potential transaction into the WKP service area is simply displacing an existing load, WKP gains no advantage from knowing that it is occurring. In fact, B.C. Hydro noted that WKP acknowledged on cross examination (at T: 50) that the Utility's generation and marketing functions could benefit from prior knowledge about an existing load's intention to buy a portion of its portfolio from the short-term market (B.C. Hydro Final Argument, p. 4).

5.1.2 Commission Determinations

WKP has stated that the cost of functional separation would exceed any reasonable expectation of benefits. The Commission accepts this position at the present time.

Still, the Commission believes that, absent a single system operator, true non-discriminatory access is only possible if the Company functionally separates. In time, therefore, higher usage would likely tilt the cost-benefit analysis in favour of a divided utility. In taking this view, the Commission is persuaded by the arguments of B.C. Hydro, which characterize WKP's view of discrimination as focussing too narrowly on the issue of price. As B.C. Hydro demonstrated, limiting access to information is a critical component of preventing discrimination.

The Commission is satisfied that WKP should not be directed to functionally separate at this time. However, if a single system operator is not created in the near future, the Commission will want to re-examine the need to separate the transmission function of the Utility from the generating and marketing functions. At some volume of actual and possible transactions, the cost of separation will be outweighed by the costs of real or perceived discrimination.

Therefore, the Commission directs WKP to file by December 31, 1999 a report detailing both the status of any single system operator proposal or project, and historical data concerning the use of WKP's open access tariffs. The Commission will use this information to re-assess the need for functional separation of the Utility.

5.1.3 Code of Conduct

With its original application, WKP did not propose to develop a Code of Conduct. The Utility argued that a Code of Conduct is generally prepared in the context of functional separation, to govern the exchange of information between staff in the distinct functions. Since WKP was not proposing to functionally separate, it argued that a Code of Conduct was unnecessary (T: 44).

In the course of testimony, WKP agreed that without a Code of Conduct there is nothing to prevent WKP staff, on receiving a communication from a would-be transmission user, from passing that information to an affiliated marketer (T: 44 and 45). In light of this consideration, WKP modified its position somewhat. While maintaining that there is no need for a Code of Conduct to govern the flow of information within the company (that is, the internal flow of information), the Utility acknowledged that a limited Code of Conduct would be appropriate were it to cover only external flows of information, such as from the Company to an affiliated marketer (T: 97).

For several of the intervenors, the requirement for a Code of Conduct was linked to the issue of functional separation. The Committee, for example, expressed its view that a waiver from the obligation to functionally separate should be expressly recognized as a privilege, and the Company should acknowledge this privilege by encouraging its employees to behave in a manner that mimics functional separation to the greatest possible extent. Moreover, the Committee stated that a limitation on the exchange of information with affiliate marketers should be just one element contained in a comprehensive Code of Conduct (the Committee Final Argument, p. 5).

B.C. Hydro acknowledged WKP's willingness to produce a limited Code of Conduct – governing the flow of information from the Utility to any marketing affiliates – but questioned the value of this given WKP's statements that it may market surplus power directly (rather than through an affiliate) under certain circumstances (T: 244 and 245). In light of this, and combined with WKP's concession that, as transmission operator, it will have information that provides it with a competitive advantage (WKP Final Argument, p. 18), B.C. Hydro has asserted that the Commission faces only two alternatives:

- extend the firewall to any WKP personnel involved in selling power that is surplus to the needs of the tariff customer; or

- require WKP to market all surplus power through an affiliate to which the passage of information would be governed by a Code of Conduct.

In any case, B.C. Hydro argued that a rigorous Code of Conduct be required of WKP to ensure that personnel selling power at market rates do not have access to confidential transmission information. B.C. Hydro proposed that this Code of Conduct be comparable to that being implemented on the B.C. Hydro system (B.C. Hydro Final Argument, pp. 4 and 5).

5.1.4 Commission Determinations

The Commission accepts, as WKP did during the course of the hearing, that the relationship between the Utility and its affiliates is an area of potential abuse. In this regard, the Commission agrees with the Utility and most intervenors that a Code of Conduct provides an efficacious vehicle for limiting this avenue of possible discrimination.

Further, the Commission agrees with B.C. Hydro that such a Code of Conduct will offer insufficient protection to the extent that WKP markets surplus power directly, rather than through an affiliate.

The Commission, therefore, directs that WKP market all surplus power through an affiliate, and that the flow of information to any affiliate be governed by a Code of Conduct. In form and substance, that Code of Conduct shall be comparable to the Code of Conduct being implemented on the B.C. Hydro system, except where WKP can demonstrate to the Commission that it would be unreasonable to do so. WKP is directed to file its Code of Conduct by June 30, 1999.

5.1.5 Open Access Council

In its original application, WKP proposed a so-called Open Access Council ("OAC"). This was contemplated to be an independent body charged with the mandate of ensuring non-discriminatory access to the transmission system. In addition, the Open Access Council would seek to co-ordinate the system expansion plans put forward by the Utility and others. WKP proposed that the cost of participation on the Open Access Council be borne by members of the OAC (Exhibit 1A, p. 33).

However, in response to information requests about the specifics of the OAC, WKP cited limited support for the proposal from participants at the September 8 and 9, 1998, workshops and the redundancy of an OAC once a single system operator is in place as reasons for no longer recommending the establishment of

an OAC (Exhibit 1B, BCUC IR#1, p. 22). These arguments were repeated by WKP at the hearing (T: 57-80).

Notwithstanding WKP's recommendations, several intervenors, including CPC and CBT, supported in their final arguments the creation of an OAC. This prompted WKP to conclude that it had misinterpreted intervenor sentiment following the workshops, and withdrawn its application for the OAC on an incorrect premise. As a result, WKP used its reply argument to, in essence, reactivate its application for an OAC (WKP Reply Argument, p. 12).

On November 19, 1998, B.C. Hydro filed a reply argument of its own, submitting that the Commission has no basis on the record to consider implementing an OAC. B.C. Hydro argued that while the OAC was part of the original Application in this proceeding, it was withdrawn by the Utility in light of pre-hearing consultations. As a result of this withdrawal, parties have not had meaningful opportunities to be heard on the appropriateness, form, or function of an OAC. The Commission, therefore, cannot properly deal with the OAC issue at this time (B.C. Hydro Reply Argument).

5.1.6 Commission Determinations

The Commission agrees with those parties who argue that the OAC should not be re-introduced in argument, thereby denying intervenors the opportunity to address this concept in the hearing. If WKP and other interested parties wish to create an OAC in the future, then WKP is encouraged to file a distinct application to this effect with the Commission.

The Commission, therefore, declines to order WKP to create an Open Access Council.

5.1.7 Existing Contractual Arrangements

WKP's Transmission Access Application proposes to provide open access to facilities owned by the Utility. Three existing agreements, however, were identified by the Utility as possibly limiting the transmission opportunities of third-party users of the transmission system relative to the access of the Utility itself.

- WKP has access to facilities owned by CPC/CBT and Cominco in accordance with the 1996 Facilities Sharing Agreement. WKP uses some of these assets to serve its current load. The facilities that are subject to the Facilities Sharing Agreement are for the use of the parties to the Agreement, and WKP is not permitted to reassign any of its nominations made under that Agreement. In return for the benefits provided to WKP, the Facilities Sharing Agreement extends

to CPC/CBT and Cominco access to specific WKP assets. This may affect the available transmission capacity for open access transactions. While WKP has said that it cannot ensure that the terms of the Facilities Sharing Agreement will not restrict the ability of Eligible Customers to access the WKP system, it has said that it will work with customers to make arrangements with Cominco to reach the WKP system (Exhibit 1B, BCUC IR#1, p. 2).

- The Canal Plant Sub-Agreement, which governs the interconnection put in place to handle entitlement transfers, specifies that access to the interconnection is available only to WKP, Cominco, and the Columbia Basin Power Corporation. While these rights could be re-assigned, WKP has stated that it would be very difficult to schedule the use of the tie for third-party use together with the requirements for entitlement transfers (Exhibit 1B, BCUC IR#1, p. 4).
- The 1996 Transmission Asset Transfer Agreement aligned the assets of WKP, Cominco, and CPC/CBT, at which time WKP granted certain additional rights to Cominco and CPC/CBT. WKP does not anticipate any anti-competitive effects to result from this agreement (Exhibit 1B, BCUC IR#1, p. 6).

In response to an information request concerning the Transmission Asset Transfer Agreement, WKP stated that since the Transmission Asset Transfer Agreement was entered into prior to the TAA, in the event of any inconsistencies between the two the Transmission Asset Transfer Agreement should be paramount (Exhibit 1B, BCUC IR#1, p. 6). WKP advanced this argument by noting that both the Facilities Sharing Agreement and the Transmission Asset Transfer Agreement were approved by the Commission prior to the filing of this Application, in the Commission's Decision concerning the Brilliant Power Purchase (WKP Final Argument, p. 20). At the hearing, WKP expressed a similar view with respect to the Canal Plant Sub-Agreement (T: 305).

The Utility also agreed with CBT that it may be useful to have the Commission acknowledge explicitly that the provisions of these agreements preceded the TAA and are 'grandfathered' (T: 78). This position was supported by the CPC (CPC Final Argument, p. 3).

5.1.8 Commission Determinations

The Commission notes, as a point of fact, that the agreements described above predate the TAA, and have been previously approved by the Commission. In the event that circumstances develop such that there are inconsistencies between the TAA and these other agreements, the fact that these agreements predated the TAA would suggest that they should prevail. However, the Commission does not wish to provide a

blanket judgement over issues that it believes are best addressed on a case-by-case basis, if and when such issues of conflict arise between the TAA and any other agreements.

Therefore, the Commission declines to ‘grandfather’ any of the above-referenced agreements with respect to their relationship to the TAA.

5.2 System Expansion and Re-enforcement

WKP acknowledged in its Application that, where possible, it has an obligation to expand or modify the transmission system to meet the needs of an Eligible Customer. According to the Utility, the costs of expansions necessary to address constraints will follow from the observed usage of particular facilities. Where the expansion provides a benefit to all customers, the cost will be included in WKP's revenue requirement, to be paid by all customers. In cases where the expansion benefits one or more identifiable customers, the costs may be assigned directly to that customer (or set of customers).

This proposal reflects a change from WKP's current policy, where the costs of system expansion are spread among all customers, regardless of any identifiable benefit. The Utility argued that the policy shift is necessary in an open access environment to protect Native Load Customers from expansion costs driven by the use of the transmission system for wheeling by Eligible Customers.

According to WKP, the exact mechanism for directly assigning costs would be based on some future Commission directive (T: 181), although the Utility did offer some guiding principles that it believed should govern such issues (T: 121 and 122). Still, the Utility stated that it has no intention of applying to the Commission for a formal system extension or re-enforcement policy (T: 209). Instead, it has said that it will leave policy-making to the Commission, while negotiating extension terms on a case-by-case basis as its wholesale contracts come up for negotiation (T: 262). In the case of industrial customers, WKP justified its decision to not file a system extension policy on the grounds of need; there have only been two new industrial customers on WKP's system since 1980 (WKP Final Argument, p. 16).

The perceived generality of WKP's expansion policy – which WKP stated was taken directly from the FERC *pro forma* tariff (T: 180) – was the subject of some criticism at the hearing. The CAC (B.C.) et al., for example, noted that while section 27 of the Terms and Conditions states that cost responsibility would be determined in a manner consistent with Commission policy, no specific Commission policy was being referred to. Both the Committee and the CAC (B.C.) et al. noted that, from a customer perspective, negotiating extension and re-enforcement policies would be greatly helped by advance knowledge of the policy parameters within which the Utility was operating (T: 208 and 209, T: 265).

The Committee further argued that the system extension and re-enforcement provisions contained in WKP's proposed tariffs are too vague and discriminate between bundled and unbundled customers. The Committee argued that such discrimination distorts price signals, and is unfair to both the Utility and its customers. For these reasons, the Committee suggested that the Commission should require WKP to file a detailed extension policy that must be applied to new and incremental load for both bundled and unbundled service (the Committee Final Argument, pp. 4 and 5).

The CAC (B.C.) et al. – while generally supportive of WKP's objective of protecting captive customers from system expansion or re-enforcement costs triggered by open access transactions – remained concerned that the Utility's policy is uncertain enough to leave captive customers at risk when the expansion or re-enforcement is required to serve both bundled and unbundled customers. The CAC (B.C.) et al. suggested that the Commission should monitor any system extensions where this shared benefit may arise to ensure that there is no subsidy from remaining customers to wheeling customers [CAC (B.C.) et al. Final Argument, p. 6].

In its reply argument, WKP reiterated its view that a system extension and re-enforcement policy for the industrial class is unnecessary. With respect to wholesale customers, WKP continued to argue that the recovery of system extension or expansion costs from wholesale customers should be resolved during the negotiation of contracts, with these contracts subject to Commission review (WKP Reply Argument, p. 11).

The IMEU supported WKP's proposal for settling system expansion and re-enforcement costs through negotiation. However, it arrived at that conclusion from a rather different perspective than the Utility. In short, the IMEU rejected the logic that Utility policy for the municipals should mirror the policy for industrial customers, noting that a municipal load is an aggregation of a large number of residential customers, many commercial customers, and a few industrial customers. This aggregate, and the transmission extension and re-enforcement it may require, is not, according to the IMEU, comparable to the expansion or re-enforcement needs of an industrial customer. To assume otherwise would create a discriminatory situation for IMEU customers (IMEU Final Argument, pp. 6 and 7).

5.3 Commission Determinations

The Commission is not satisfied with WKP's system extension and re-enforcement proposal. In particular, the Commission believes that the system extension and re-enforcement provisions contained in the proposed tariffs are too vague. This, the Commission believes, will not foster effective negotiations

with wholesale customers, since only the most general parameters will be known to customers entering discussions with the Utility. In addition to the fairness issues raised by this situation, the Commission is concerned that price signals would be opaque under the Utility's proposed approach, leading to the possibility of inefficient expansion or location decisions.

The Commission is also troubled by WKP's contention that there is no need for a system extension policy applicable to industrial customers. While the need for such a policy may not be imminent, it is certainly conceivable – and at least as likely, in the Commission's view, as an existing industrial customer's use of WKP's wheeling tariff.

The Commission, therefore, directs WKP to file a transmission system extension and re-enforcement policy, applicable to both new and existing load, for customers taking both bundled and unbundled service in all relevant classes. This policy should be filed with the Commission no later than December 31, 1999.

Dated at the City of Vancouver, in the Province of British Columbia, this 10th day of March, 1999.

Original signed by:

Peter Ostergaard
Chair

Original signed by:

Lorna R. Barr
Deputy Chair

Original signed by:

Kenneth L. Hall, P. Eng
Commissioner

Original signed by:

Paul G. Bradley
Commissioner

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R.J. GATHERCOLE	Consumers' Association of Canada (B.C. Branch), British Columbia Old Age Pensioners' Organization, Council of Senior Citizens' Organizations of B.C., Federated Anti-Poverty Groups of B.C., Senior Citizens' Association of B.C., End Legislated Poverty, Kootenay Okanagan Electric Consumers' Association
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GARY S. SALEBA

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ROBIN GORDON SIDDALL
GEORGE ISHERWOOD
GARY S. SALEBA

Association for Advancement of
Sustainable Energy Policy - Panel

JIM LAZAR

LIST OF EXHIBITS

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West Kootenay Power Ltd. - Transmission Access Application, as Revised, dated July 1998	1A
West Kootenay Power Ltd. - Transmission Access Application, Information Requests, dated October 1, 1998	1B
West Kootenay Power Ltd. - Transmission Access Application, Direct Testimony, dated October 7, 1998	1C
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