



**LETTER NO. L-42-01**

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**VIA FACSIMILE**

November 13, 2001

Mr. Ray Aldeguer  
Senior Vice President  
Legal, Regulatory Affairs and General Counsel  
British Columbia Hydro and Power Authority  
17<sup>th</sup> Floor, 333 Dunsmuir Street  
Vancouver, B.C. V6B 5R3

Dear Mr. Aldeguer:

Re: British Columbia Hydro and Power Authority  
Apollo Forest Products Ltd. ("Apollo")  
Revenue Guarantee Requirement

Following an Application by Apollo for a rate bypass and a complaint by the Mayor of Fort St. James, the Commission examined the issue of electricity supply to the Fort St. James area. In Order No. G-60-01, the Commission directed B.C. Hydro to invest in the necessary transmission line modifications between Vanderhoof and Fort St. James at its own cost, once it became evident to B.C. Hydro that new confirmed load will exceed the capacity of the existing line.

B.C. Hydro in its letter dated July 19, 2001 provided a revised incremental cost calculation, and stated that confirmation of the new load would be in the form of a signed revised Facilities Agreement (Tariff Supplement No. 6 or "TS No. 6"). The Facilities Agreement would require Apollo to provide B.C. Hydro with a revenue guarantee of \$4.8 million or \$5.5 million depending on whether Apollo is served as a distribution or transmission voltage customer. B.C. Hydro calculated the revenue guarantee including in its calculations the cost of the Vanderhoof-Fort St. James transmission reinforcement. In a September 17, 2001 letter, Apollo objected to the required revenue guarantee and argued that it contradicted the Commission's ruling in Order No. G-60-01.

In a letter dated September 26, 2001, the Commission asked B.C. Hydro to respond to Apollo's complaint and to provide two detailed calculations of the amount of the revenue guarantee, one including and the other excluding the transmission reinforcements between Vanderhoof and Fort St. James.

In the Reasons for Decision attached to Order No. G-60-01, the Commission concluded that there would be sufficient potential load growth to warrant B.C. Hydro reinforcing the transmission line at its own expense, as sufficient additional revenue is expected to follow to offset the cost of the line. The Commission now finds that requiring Apollo to provide a revenue guarantee based on the cost of the transmission reinforcement upstream of Fort St. James is inconsistent with the intent of Order No. G-60-01. However, the Commission considers that a revenue guarantee is reasonable to secure the new load. Otherwise, the Utility could be induced to upgrade the Vanderhoof-Fort St. James transmission line based on load and revenues that subsequently failed to materialize.

Also in the Reasons for Decision attached to Order No. G-60-01, the Commission determined that it was reasonable to assume load growth in the order of 5 MVA in the foreseeable future, in addition to the proposed 5 MVA of additional Apollo load. Consequently, the Commission finds that Apollo should provide a revenue guarantee commensurate with its own load but not be held responsible for other expected load in the area. Therefore, the Commission determines that an appropriate level of revenue guarantee, in the particular circumstances of this case, is equal to one-half of the revenue guarantee calculated including the cost of the Vanderhoof-Fort St. James transmission reinforcement. Thus, if Apollo constructs its proposed substation and takes service at transmission voltage, the required revenue guarantee would be one-half of \$5,456,111 (i.e., \$2,728,055).

The security is to be reduced each year by the incremental revenue from Apollo. Based the information provided in B.C. Hydro's calculations, incremental revenue would be the revenue in excess of \$612,000 per year. Assuming incremental electricity revenue of \$760,000 per year based on incremental revenue from the first year of normal operations (per Attachment 3 of B.C. Hydro's October 9, 2001 letter), the revenue guarantee would be eliminated by Apollo after about 3.6 years.

The Commission considers the particular circumstances surrounding the Apollo rate bypass application, and the electricity supply to Fort St. James to be unusual, and does not intend its determinations in this case to infer a general direction to B.C. Hydro to deviate from its tariffs in other cases.

Finally, the Commission has reviewed the revised incremental cost calculations of B.C. Hydro and Apollo's estimated substation costs and determines that, consistent with the Commission's Rate Bypass Guidelines, if Apollo constructs its proposed substation, B.C. Hydro should provide it with service under Rate Schedule 1821.

Yours truly,

*Original signed by:*

Robert J. Pellatt

JWF/mmc

cc: Mr. S. Shettell, General Manager  
Apollo Forest Products Ltd.  
Mr. Jim Togyi  
Mayor, District of Fort St. James