



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

and

Aquila Networks Canada (British Columbia) Ltd.
2002 Annual Review and 2003 Revenue Requirements Application

BEFORE: P. Ostergaard, Chair)
R.D. Deane, Commissioner) February 17, 2003
K.L. Hall, Commissioner)

O R D E R

WHEREAS:

- A. Commission Order No. G-134-99 approved the November 22, 1999 Settlement Agreement for the period beginning January 1, 2000 and ending December 31, 2002, whereby West Kootenay Power Ltd. [now Aquila Networks Canada (British Columbia) Ltd. ("Aquila")] is required to file annually with the Commission materials for any rate change effective January 1 of the next year; and
- B. The terms of the 1999 Settlement Agreement require that Aquila institute a negotiated settlement process (the "Negotiated Settlement Process") and also an annual review process whereby the public will be invited to examine the filed material, submit other issues for determination by the Commission and meet to discuss all issues prior to the final rate application being made (the "Annual Review"). Following the Annual Review, unsatisfied customers may initiate a complaint with the Commission; and
- C. A 2002 Annual Review is required to assess Aquila's performance and to make adjustments against the 2001 and 2002 Revenue Requirements; and
- D. On November 15, 2002, Aquila requested that the Settlement Agreement be extended for a period of one year ending December 31, 2003, and filed a Preliminary 2003 Revenue Requirements Application in support; and
- E. By Order No. G-83-02 the Commission approved an interim rate increase of 5%, effective January 1, 2003 and established a regulatory timetable for a Negotiated Settlement Process; and

- F. A Negotiated Settlement Process was held on January 13-14, 2003 in Penticton B.C. and the Negotiated Settlement reached among the participants was circulated to all Registered Intervenors and the Commission on January 31, 2003; and
- G. No letters of comment were received from other Registered Intervenors; and
- H. The Commission has reviewed the Negotiated Settlement for Aquila's 2002 Annual Review and 2003 Revenue Requirements Application and finds that it should be approved.

NOW THEREFORE the Commission orders as follows:

1. The Commission approves for Aquila the Negotiated Settlement as issued on January 31, 2003 and attached as Appendix A to this Order.
2. A general rate increase of 4.3% for all customer classes effective with consumption on and after January 1, 2003 is approved.
3. The Commission will accept revised Electric Tariff Rate Schedules in accordance with the terms of this Order.
4. Aquila is to inform all customers of the rate changes approved by this Order.
5. Aquila is to proceed with refunds to its customers of record, where necessary. Such refunds are to include interested calculated as specified in Order No. G-83-02.

DATED at the City of Vancouver, in the Province of British Columbia, this 18th day of February 2003.

BY ORDER

Original signed by:

Peter Ostergaard
Chair

Attachment

WILLIAM J. GRANT
EXECUTIVE DIRECTOR,
REGULATORY AFFAIRS & PLANNING
bill.grant@bcuc.com
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APPENDIX A
to Order No. G-10-03
Page 1 of 25

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Log No. 1915

VIA FACSIMILE

January 31, 2003

To: Registered Intervenors

Re: Aquila Networks Canada (British Columbia) Ltd.
Negotiated Settlement
2002 Annual Review and 2003 Revenue Requirements Application

Enclosed with this letter is the proposed settlement package with respect to the Aquila Networks Canada (British Columbia) Ltd. Application for Approval of the 2002 Annual Review and 2003 Revenue Requirements Application.

This settlement package is now public and is being submitted to the Commission and all intervenors. Also enclosed are letters of comment received from the participants in the negotiated settlement process.

Prior to consideration by the Commission, intervenors who did not participate in the settlement negotiations are requested to provide to the Commission any comments on the settlement package by Monday, February 10, 2003. Thereafter, the Commission will consider the settlement package. A public hearing may not be required unless there is significant opposition to the proposed settlement.

Yours truly,

A handwritten signature in dark ink, appearing to be "WJ Grant", is written over a light grey circular background.

W.J. Grant

BMK/cms

Attachments

cc: Mr. Bryan Curtis
Vice President, Regulatory
Aquila Networks Canada (British Columbia) Ltd.

WILLIAM J. GRANT
EXECUTIVE DIRECTOR,
REGULATORY AFFAIRS & PLANNING
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~~CONFIDENTIAL~~

VIA FACSIMILE

January 24, 2003

Dear Participants:

Re: Aquila Networks Canada (British Columbia) Ltd.
2002 Annual Review and 2003 Revenue Requirements Application

Commission staff received no suggested edits to the draft of the Negotiated Settlement Agreement on the Aquila Networks Canada (British Columbia) Ltd. Application for Approval of the 2002 Annual Review and 2003 Revenue Requirements Application and it is therefore accepted as the final copy.

Please provide written correspondence confirming your acceptance of this settlement by Thursday, January 30, 2003. The Negotiated Settlement Agreement and letters of comment from the participants will be made public and forwarded to the Commission for its review.

Prior to consideration by the Commission, intervenors who did not participate in the settlement negotiations will be requested to provide to the Commission their comments on the settlement package by Monday, February 10, 2003. Thereafter, the Commission will consider the settlement package.

Yours truly,

A handwritten signature in dark ink, appearing to be "WJG", is written over a light blue horizontal line.

W.J. Grant

WJG/rt

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

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

- and -

IN THE MATTER OF Aquila Networks Canada (British Columbia) Ltd.
2002 Annual Review and 2003 Revenue Requirements Application

NEGOTIATED SETTLEMENT

Commission Order No. G-134-99 approved the November 22, 1999 Settlement Agreement (the “ 1999 Settlement Agreement”) for the period beginning January 1, 2000 and ending December 31, 2002, whereby West Kootenay Power Ltd. [now Aquila Networks Canada (British Columbia) Ltd. (“Aquila”)] is required to file annually with the Commission materials for any rate change effective January 1 of the next year.

The terms of the 1999 Settlement Agreement require that Aquila institute a Negotiated Settlement Process and also an Annual Review process whereby the public will be invited to examine the filed material, submit other issues for determination by the Commission and meet to discuss all issues prior to the final rate application being made.

On November 15, 2002, Aquila requested that the 1999 Settlement Agreement be extended for a period of one year ending December 31, 2003, and filed a Preliminary 2003 Revenue Requirements Application in support.

Commission Order No. G-83-02 approved an average interim rate increase of 5 percent, effective January 1, 2003, subject to refund, and established a 2002 Annual Review and a Negotiated Settlement Process to determine rates for 2003. The regulatory timetable included Information Requests to be issued by Commission staff and Intervenor, with responses by Aquila. The proceedings commenced in Penticton on Monday, January 13, 2003 and concluded on Tuesday, January 14, 2003. A Public Information Town Hall Meeting was scheduled in the evening for those parties not wishing, or able, to participate in the Annual Review.

The following are the results of the 2002 Annual Review and the negotiated settlement arrived at between Aquila and the parties attending the Negotiated Settlement Process, with the participation of the Commission Staff. This Settlement is a simple extension of the 2000-2002 rate adjustment mechanism approved by the November 22, 1999 Settlement Agreement. Aquila agrees to provide a detailed revenue requirements application for 2004 which will contain a full analysis in support of any proposed rebasing of any of the cost categories.

Aquila Networks Canada (British Columbia) Ltd.
2003 Revenue Requirements Application

2003 Revenue Requirements Settlement

1. The Load Forecast recommended by the Load Forecast Committee is accepted.
2. The DSM Committee report is accepted. As part of the 2004 Revenue Requirement Application, Aquila, in cooperation with the DSM committee, will provide a fresh and comprehensive assessment of the Utility's DSM strategy. By February 28, 2003 Aquila will file terms of reference for this assessment.
3. Aquila will file a report on its Customer Contact Centre, detailing its success in responding to trouble calls, reducing waiting times, and improving contractor satisfaction with the centre. The report will be filed with the Commission and copied to registered intervenors, and will cover the experience to June 2003. Filing will be done by July 31, 2003.
4. The Customer Satisfaction Index will be revamped for 2004 and beyond. The existing survey and index will continue to apply in 2003.
5. The report on Extraordinary Capital life extensions and upgrades will be finalized and filed with the Commission.
6. The proposed Extraordinary Capital program for 2003 is accepted, subject to review and Commission approval of individual CPCN's. (Tab 3, slide 3)
7. The SAP projects are accepted, including the \$6.6 million of Extraordinary Capital and the expensing of \$2.1 million in 2002. Aquila is to provide a report on its proposed allocation of costs and savings to municipal customers as part of its 2004 Revenue Requirement Application. Any significant computer or IT investments must be filed with the Commission in advance, together with business cases in support of the expenditures.
8. The cost of the Brilliant Terminal Station should be a flow-through application filed pursuant to the original Commission Order. It would presumably flow into rates in June 2003, provided the costs have been prudently incurred.
9. Aquila will provide reports on the determinations of the Brilliant Management Committee, along with forecasts of upcoming expenditures, to be reviewed at the Annual Reviews. A business case for the 2002 expenditures is to be filed with the Commission by February 28, 2003.
10. There will be no rebasing of Base Costs during this last year of the Settlement extension. Rebasing will only occur in 2004 after detailed review of each individual Base Cost category.
11. The O&M Productivity Improvement Factor for 2003 is to be set at 1.0% to recognize potential synergies between B.C. and Alberta operations.
12. The Base Capital Productivity Improvement Factor is also 1.0%.
13. Other Income should not be rebased prior to the expiration of the current Settlement.

14. Extraordinary O&M Costs

Parties accept the Extraordinary O&M costs of \$1.2 million, as detailed in Table 4-C, being Head Office Lease Payments, Pension Expense Adjustments, WAN Lease, Lease Savings-Kelowna Consolidation, and 2003 Pension Expense Adjustment.

15. Deferral Accounts

Parties accept most of the request for deferral accounts, being:

- Deferral of the costs of renegotiating the Canal Plant Agreement, pending disposition;
- Deferral of future incremental costs related to regulatory and related activities as they arise;
- Deferral of issue costs of new debenture series until such time as those costs can be incorporated into rates;
- Amortization of \$34,000 of costs incurred for the 2001 Annual Review and 2002 Revenue Requirements during 2003;
- Amortization of \$450,000 of expense incurred in issuing Series J Secured Debentures over seven years, beginning in 2003;
- Recovery of \$297,900 related to the higher interest expense incurred between June 20, 2002 and December 31, 2002, through rates in 2003.

16. B.C./Alberta Integration

Parties do not accept the deferral of \$2.2 million in integration expenses. The costs are to be expensed in 2002, and the variance shared equally with ratepayers.

17. Rate Stabilization Fund

Parties agree to the application of the rate stabilization provision to smooth the rate increases in 2003, if required.

18. GAAP Variance

Parties agree to the Commission approving a variance from Generally Accepted Accounting Principles, permitting the Company not to expense \$870,000 in 2003, and to continue to expense unamortized past service costs at \$178,000 per year for 12.2 years.

19. Power Purchases

The proposed power purchase expenses are accepted. The parties recognize that the capacity purchase from Cominco in January and February is desirable and that only small purchases at market prices are forecast for November/December. Any savings are shared with customers at an initial rate of 65% to customers.

Aquila Networks Canada (British Columbia) Ltd.
2002 Annual Review

Parties accept the following items related to the 1999 Settlement, as determined in the January 6, 2003 Update:

- Approval of the Final 2001 Incentive Adjustment;
- Approval of the Final 2001 Power Purchase Incentive;
- Approval of the Preliminary 2002 Incentive Adjustment, amended for the Integration costs expensed in 2002;
- Approval of the Preliminary 2002 Power Purchase Incentive Adjustment;
- Approval of the Final 2001 DSM Incentive;
- Approval of the Preliminary 2002 DSM Incentive.

Performance Criteria: meet or exceed 3 year average.

1. Reliability

- Adjust 2002 for IEEE 2.5 beta correction (windstorm statistics removed)

A. SAIDI - System Duration Index

3 year average - 2.875 2002 - 2.080

B. SAIFI - System Frequency Index

3 year average - 3.361 2002 - 2.110

C. CAIDI - Customer Duration Index

3 year average - 0.885 2002 - 0.986

Trending upward slightly, however as SAIFI Index improves CAIDI will increase, ie. less frequent system outages which have short restoration times leaves higher ratio of none distribution outages which have longer restoration times.

Accepted

D. Index of Reliability

3 year average - 99.967% 2002 - 99.976%

2. Safety Statistics

A. Disabling Injury Frequency Rate (Lost Time Accidents)

3 year average - 3.43 2002 - 3.56

Trending upward. Composed of more minor injuries.

B, Incident Severity Rate (Duration of Lost Time)

3 year average - 85.7 2002 - 22,6

Large improvement

C. Vehicle Incident Rate

3 year average - 4.6 2002 - 4.6

3. Customer Satisfaction Index

3 year average - 90.7 2002 - 89.6

However, slight improvement over 2001.

2003 REVENUE REQUIREMENTS

JANUARY 15, 2003

Revisions to Tab 2 Revenue Requirements

2003 Revenue Requirements as reflected in the Settlement Agreement are shown in the following tables.

Table 2-A Revenue Requirements

		2003
		(000s)
1 POWER PURCHASES		\$ 60,635
2 OPERATING EXPENSES		
3 O&M Expense		28,346
4 Extraordinary O&M		1,072
5 Capitalized Overhead		(2,492)
6 Wheeling		3,715
7 Water Fees		7,470
8 Other Income		(3,634)
9 Extraordinary Income		(75)
		34,402
10 FINANCING COSTS		
11 Interest Expense		20,494
12 Cost of Equity		17,300
13 Amortization Expense		15,145
14 AFUDC		(3,001)
		49,939
15 TAX EXPENSE		
16 Income tax		6,935
17 Property tax		9,572
18 B.C. Capital Tax		-
		16,507
19 REVENUE REQUIREMENTS		161,482
20 ADJUSTMENTS TO REVENUE REQUIREMENTS		
21 Final 2001 Incentive Adjustment		(99)
22 Preliminary 2002 Incentive Adjustment		(132)
23 Final 2001 Power Purchase Incentive		(840)
24 Preliminary 2002 Power Purchase Incentive		(242)
25 Rate Stabilization Provision		
26 REVISED REVENUE REQUIREMENTS		\$ 160,169
27 REVENUE AT PRIOR YEAR RATES		\$ 153,555
28 RATE INCREASE REQUIRED		4.3%

2003 REVENUE REQUIREMENTS

JANUARY 15, 2003

Table 3-A Target Cost Variables

	Normalized 2001	Current Estimate Normalized 2002	Forecast 2003	Notes
1 Cost Drivers				
2 Number of Direct Customers (Year-End)	89,222	90,670	92,163	(1)
3 Customer Growth (Year-End)	1.6%	1.6%	1.6%	
4 Number of Direct Customers (Simple Average)	88,527	89,946	91,417	
5 Customer Growth (Simple Average)	1.4%	1.6%	1.6%	
6 System Energy Sales (GW.h - Normalized)	2,753	2,822	2,832	(1)
7 Losses (GW.h - Normalized)	313	327	314	(1)
8 Gross Load (GW.h - Normalized)	3,066	3,149	3,146	
9 System Energy Sales Growth	2.4%	2.5%	0.4%	
10 Peak Load (MW - Normalized)	678	676	672	(1)
11 Generation (GW.h)	1,510	1,504	1,520	(2)
12 Power Purchases (GW.h - Normalized)	1,556	1,645	1,626	(2)
13 Gross Load (GW.h - Normalized)	3,066	3,149	3,146	
14 Base Cost Escalators				
15 CPI - Canada	2.6%	2.2%	2.4%	(3)
16 CPI - British Columbia	1.7%	2.1%	2.0%	(4)

17 Notes:

- 18 (1) 2003 Load and Customer Forecast Update of January 6, 2003
19 (2) Power Purchase Forecast Update of January 6, 2003
20 (3) Consensus Economics Forecast, December 2002
21 (4) B.C. Ministry of Finance, B.C. Economic Review and Outlook, September 2002

2003 REVENUE REQUIREMENTS

JANUARY 15, 2003

Table 4-A Operating Expenses

			Target	Actual	Target	Current Estimate	Target
			2001	2001	2002	2002	2003
					(\$ 000s)		
1 Operating & Maintenance							
2	Cost Driver	Direct customers	88,527		89,946		91,417
3	Base Cost	(\$ 1998)	305.30		305.30		305.30
4	Base Cost Escalator	CPI BC (Cumulative)	1.047		1.069		1.090
5	Productivity Improvement Factor (Cumulative)		0.960		0.941		0.932
6			<u>27,184</u>	<u>27,670</u>	<u>27,631</u>	<u>29,068</u>	<u>28,346</u>
7 Software Development Expense					-	2,075	
9 BC/Alberta Integration Expense					-	2,180	
10 Extraordinary O&M			<u>710</u>	<u>723</u>	<u>686</u>	<u>722</u>	<u>1,072</u>
11 Capitalized Overhead							
12	Cost Driver	Capital exp. excl. DSM	40,257		83,043		61,648
13	Base Cost	5.5%			2.5%		4.0%
14	Base Cost Escalator	None					
15			<u>(2,214)</u>	<u>(2,450)</u>	<u>(2,076)</u>	<u>(2,336)</u>	<u>(2,492)</u>
16 Wheeling							
17	Cost Driver	MW Months	2,415		2,409		2,199
18	Base Cost	(weighted average)	1,769		1,697		1,689
19	Base Cost Escalator	BC Hydro rate	1,000		1,000		1,000
20			<u>4,272</u>	<u>4,334</u>	<u>4,089</u>	<u>4,177</u>	<u>3,715</u>
21 Water Fees							
22	Cost Driver	GW.h	1,489		1,510		1,504
23	Base Cost	(includes upgrade)	4,878		4,775		4,967
24	Base Cost Escalator	BC Hydro rate	1,000		1,000		1,000
25			<u>7,264</u>	<u>7,178</u>	<u>7,210</u>	<u>7,156</u>	<u>7,470</u>
26 Other Income							
27	Cost Driver	Direct customers	88,527		89,946		91,417
28	Base Cost	(\$ 1998)	(35.44)		(35.44)		(35.44)
29	Base Cost Escalator	CPI Canada (Cumulative)	1.072		1.095		1.122
30			<u>(3,363)</u>	<u>(4,538)</u>	<u>(3,492)</u>	<u>(5,474)</u>	<u>(3,634)</u>
32 Extraordinary Income			<u>(62)</u>	<u>(73)</u>	<u>(75)</u>	<u>(75)</u>	<u>(75)</u>
33 Total Operating Expenses			<u>\$ 33,791</u>	<u>\$ 32,844</u>	<u>\$ 33,973</u>	<u>\$ 37,493</u>	<u>\$ 34,402</u>

Table 4-C Extraordinary O&M

		Target	Actual	Target	Current Estimate	Target
		2001	2001	2002	2002	2003
1	Head Office Lease Payments	106	106	104	104	104
2	Pension Expense Adjustments	333	333	333	333	333
3	Wide Area Network Lease	271	284	271	309	309
4	Lease Savings - Kelowna Consolidation			(22)	(24)	(114)
5	Subtotal - 1999 Settlement Agreement	710	723	686	722	632
6	2003 Pension Expense Adjustment					440
7	Total Extraordinary O&M Expenses	<u>710</u>	<u>723</u>	<u>686</u>	<u>722</u>	<u>1,072</u>

2003 REVENUE REQUIREMENTS

JANUARY 15, 2003

Table 4-D Extraordinary Other Income

	Target 2001	Actual 2001	Target 2002	Current Estimate 2002	Target 2003
1 Head Office Lease Receipts	\$ (62)	\$ (73)	\$ (75)	\$ (75)	\$ (75)
2 Total Extraordinary Income	\$ (62)	\$ (73)	\$ (75)	\$ (75)	\$ (75)

Table 4-E Financing Costs

		Actual 2001	Current Estimate 2002	Forecast 2003
1 Interest Expense				
2 Cost Driver	Weighted average debt	\$ 206,260	\$ 228,629	\$ 264,254
3 Base Cost	Weighted average cost of debt	7.7%	7.4%	7.8%
4		<u>15,797</u>	<u>16,917</u>	<u>20,494</u>
5 Cost of Equity				
6 Cost Driver	Average shareholder's equity	137,507	152,419	176,169
7 Base Cost	Return on equity (Note 1)	9.75%	9.53%	9.82%
8		<u>13,407</u>	<u>14,526</u>	<u>17,300</u>
9 Amortization Expense				
10 Cost Driver	Assets subject to amortization	n/a	n/a	n/a
11 Base Cost	Weighted average amortization rate	n/a	n/a	n/a
12		<u>12,695</u>	<u>14,024</u>	<u>15,145</u>
13 AFUDC				
14 Cost Driver	Capital expenditures subject to AFUDC	n/a	n/a	n/a
15 Base Cost		8.0%	8.0%	8.0%
16		<u>(846)</u>	<u>(2,344)</u>	<u>(3,001)</u>
17 Total Financing Costs		<u>\$ 41,053</u>	<u>\$ 43,124</u>	<u>\$ 49,939</u>

18 Note:

19 (1) The approved return on equity, not the actual, is shown for the purposes

20 of calculating the return on capitalization for financing cost adjustments.

Table 4-G Amortization Expense

	Actual 2001	Current Estimate 2002	Forecast 2003
1 Amortization Expense	10,745	12,016	12,846
2 Amortization of Plant & Equipment			
3 Amortization of Deferred Charges			
4 Previously Approved	1,950	2,008	1,903
5 To be Approved			
6 2001 Annual Review for 2002			34
7 2002 Interest Expense Series 1 Refinancing			298
8 Debt Issue Costs Series J			64
9			
10	<u>\$ 12,695</u>	<u>\$ 14,024</u>	<u>\$ 15,145</u>

2003 REVENUE REQUIREMENTS

JANUARY 15, 2003

Table 4-H Tax Expense

			Actual 2001	Current Estimate 2002	Forecast 2003
1	Income Tax				
2	Cost Driver	Earnings before income taxes	\$ 24,393	\$ 21,718	\$ 24,235
3	Base Cost	Effective tax rate	35.1	30.3	28.6
4			<u>8,566</u>	<u>6,570</u>	<u>6,935</u>
5	Property Tax				
6	Cost Driver	Assessed Value	298,588	294,627	309,627
7	Base Cost	Composite mill rate	30.3	30.1	30.9
8			<u>9,055</u>	<u>8,863</u>	<u>9,572</u>
9	B.C. Capital Tax				
10	Cost Driver	Total capitalization	343,767	381,048	
11	Base Cost	Effective tax rate	3.11	1.49	
12			<u>1,068</u>	<u>569</u>	
13	Total Tax Expense		<u>\$ 18,689</u>	<u>\$ 16,002</u>	<u>\$ 16,507</u>

2003 REVENUE REQUIREMENTS

JANUARY 15, 2003

Final Adjustment to 2001 Revenue Requirements

Schedule A Statement of Adjustments – 2001 Final

	Target Cost	Actual	Variance	Customer Shared Percentage	Adjustment to Rates
	(000's)				(000's)
SHARED COMPONENTS					
OPERATING EXPENSES					
1	O&M	\$ 27,184	\$ 27,670	\$ 486	
2	Other income	(3,363)	(4,538)	(1,175)	
FINANCING COSTS					
3	Cost of Capital (Base Capital Expenditures) (Volume variance)	720	747	27	
4	SHARED ADJUSTMENT	\$ 24,541	\$ 23,879	\$ (662)	50%
					\$ (331)
FLOW-THROUGH COMPONENTS					
OPERATING EXPENSES					
5	Extraordinary O&M	\$ 710	\$ 723	\$ 13	
6	Extraordinary Other Income	(62)	(73)	(11)	
7	Capitalized Overhead	(2,214)	(2,450)	(236)	
8	Wheeling	4,272	4,334	62	
9	Water fees	7,264	7,178	(86)	
FINANCING COSTS					
10	Cost of Capital (Base Capital Expenditures) (Rate Variance)	747	744	(3)	
11	Amortization expense	12,147	12,695	548	
12	AFUDC	(1,395)	(846)	549	
TAXES					
13	Income tax	8,781	8,566	(215)	
14	Property tax	9,280	9,055	(225)	
15	B.C. capital tax	991	1,068	77	
16	FLOW-THROUGH ADJUSTMENT	\$ 40,521	\$ 40,994	\$ 473	100%
					\$ 473
17	FINAL 2001 INCENTIVE				\$ 144
18	LESS PRELIMINARY ADJUSTMENT TO 2002 RATES				441
19	ADJUSTMENT TO 2003 RATES				\$ (337)

Schedule B Financing Cost Adjustments – 2001 Final

	Target Cost	Actual	Variance
1 Base Capital Expenditures	\$ 16,890	\$ 17,514	\$ 624
2 Average Rate Base Increase	\$ 8,445	\$ 8,757	\$ 312
3 Return on Capital	8.53%	8.50%	0.03%
4 Earned Return	\$ 720	\$ 744	\$ 24
5 Volume Variance	\$ 720	\$ 747	\$ 27
6 Rate Variance	\$ 747	\$ 744	\$ (3)
7 Total Variance			\$ 24

2003 REVENUE REQUIREMENTS

JANUARY 15, 2003

Schedule C Statement of Adjustments – 2002 Preliminary

	2002 Target Cost	Current Estimate	Variance	Customer Shared Percentage	Adjustment to Rates
	(000's)				(000's)
SHARED COMPONENTS					
OPERATING EXPENSES					
1 O&M	\$ 27,631	\$ 29,068	\$ 1,437		
2 Software Development Expensed	-	2,075	2,075		
Integration Costs		2,180	2,180		
3 Other income	(3,492)	(5,474)	(1,982)		
FINANCING COSTS					
4 Cost of Capital (Base Capital Expenditures) (Volume variance)	700	727	27		
PRELIMINARY SHARED ADJUSTMENT	\$ 24,839	\$ 28,576	\$ 3,737	50%	\$ 1,868

	2002 Target Cost	Current Estimate	Variance	Customer Shared Percentage	Adjustment to Rates
FLOW-THROUGH COMPONENTS					
OPERATING EXPENSES					
6 Extraordinary O&M	\$ 686	\$ 722	\$ 36		
7 Extraordinary Other Income	(75)	(75)	-		
8 Capitalized Overhead	(2,076)	(2,336)	(260)		
9 Wheeling	4,089	4,177	88		
10 Water fees	7,210	7,156	(54)		
FINANCING COSTS					
11 Cost of Capital (Base Capital Expenditures) (Rate Variance)	727	729	2		
12 Amortization expense	13,729	14,024	295		
13 AFUDC	(2,434)	(2,344)	90		
TAXES					
14 Income tax	7,818	6,570	(1,249)		
15 Property tax	9,720	8,863	(857)		
16 B.C. capital tax	660	569	(91)		
PRELIMINARY FLOW-THROUGH ADJUSTMENT	\$ 40,054	\$ 38,054	\$ (2,000)	100%	\$ (2,000)

18 PRELIMINARY 2002 ADJUSTMENT					\$ (132)
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Schedule D Financing Cost Adjustments – 2002 Preliminary

	Target Cost	Current Estimate	Variance
1 Base Capital Expenditures	\$ 17,026	\$ 17,684	\$ 658
2 Average Rate Base Increase	\$ 8,513	\$ 8,842	\$ 329
3 Return on Capital	8.22%	8.24%	-0.02%
4 Earned Return	\$ 700	\$ 729	\$ 29
5 Volume Variance	\$ 700	\$ 727	\$ 27
6 Rate Variance	\$ 727	\$ 729	\$ 2
7 Total Variance			\$ 29

2003 REVENUE REQUIREMENTS

JANUARY 15, 2003

Schedule E Return on Capitalization

	Actual 2001	Current Estimate 2002	Forecast 2003
1 EARNED RETURN			
2 Interest Expense	\$ 15,797	\$ 16,917	\$ 20,494
3 Cost of Equity	13,407	14,526	17,300
4	<u>\$ 29,204</u>	<u>\$ 31,443</u>	<u>\$ 37,794</u>
5 CAPITALIZATION			
6 Weighted average debt	206,260	228,629	264,254
7 Average shareholders' equity	137,507	152,419	176,169
9	<u>\$ 343,767</u>	<u>\$ 381,048</u>	<u>\$ 440,424</u>
10 RETURN ON CAPITALIZATION	<u>8.50%</u>	<u>8.24%</u>	<u>8.58%</u>

Schedule C Power Purchase Incentive Adjustment – 2001 Final

	Target Cost	Actual	Power Purchase Variance "PPV" (000's)	Aquila Share of Market Incentive	Adjustment to Rates
1 FORECAST POWER PURCHASE EXPENSE "FPPE"	\$ 52,172				
2					
3 ADJUSTED POWER PURCHASE EXPENSE "APPE"	\$ 51,562	\$ 51,051	\$ (511)		
4					
5					
6 <u>SHARED COMPONENT</u>					
7 On first \$1 million			(511)	(179)	(332)
8 Over \$ 1 million			-	-	-
9					
10 FINAL INCENTIVE			(511)	(179)	\$ (332)
11 LESS PRELIMINARY ADJUSTMENT IN 2002 RATES					\$ 508
12 ADJUSTMENT TO 2003 RATES					<u>\$ (840)</u>

Schedule G Power Purchase Incentive Adjustment – 2002 Preliminary

	Target Cost	Current Estimate	Power Purchase Variance "PPV" (000's)	Aquila Share of Market Incentive	Adjustment to Rates
1 FORECAST POWER PURCHASE EXPENSE "FPPE"	\$ 53,673				
2					
3 ADJUSTED POWER PURCHASE EXPENSE "APPE"	\$ 52,194	\$ 51,821	\$ (373)		
4					
5					
6 <u>SHARED COMPONENT</u>					
7 On first \$1 million			(373)	(131)	(242)
8 Over \$ 1 million			-	-	-
9					
10 PRELIMINARY INCENTIVE			(373)	(131)	\$ (242)

Table 6-A Rate Stabilization Provision

		(000s)
1	Balance at Jan 1, 2000	\$ 32,900
	Utilization of Fund in:	
2	2000	-
3	2001	(3,109)
4	2002	-
5	2003	-
6	Balance at Dec. 31, 2007	<u>\$ 29,791</u>

Table 7-A Sales Load (GW.h)

	<u>Normalized</u> 2001	<u>Forecast</u> 2002	<u>Forecast</u> 2003
CUSTOMER CLASS			
1 Residential	999	1,016	1,029
2 General Service	515	527	539
3 Industrial	323	344	315
4 Wholesale	863	880	894
5 Other	53	55	55
6 TOTAL SALES LOAD	<u>2,753</u>	<u>2,822</u>	<u>2,832</u>

Table 7-B Revenue from Sale of Electricity

	<u>Normalized</u> 2001	<u>Forecast</u> 2002	<u>Forecast</u> 2003
CUSTOMER CLASS			
1 Residential	\$ 60,680	\$ 64,553	\$ 65,378
2 General Service	31,012	33,388	34,149
3 Industrial	14,778	16,401	15,195
4 Wholesale	32,801	34,964	35,520
5 Other	3,603	3,313	3,313
6 TOTAL SALES REVENUE	<u>\$ 142,874</u>	<u>\$ 152,619</u>	<u>\$ 153,555</u>

2003 REVENUE REQUIREMENTS

JANUARY 15, 2003

Table 8-A Base Capital Expenditures

			Target	Actual	Target	Current	Target
			2001	2001	2002	Estimate	2003
					(\$ 000s)		
1 Generation							
2	Cost Driver	Generating Plants	4		4		4
3	Base Cost	(\$ 1998)	1,275		1,275		1,275
4	Base Cost Escalator	CPI Canada (Cumulative)	1.072		1.095		1.122
5	Productivity Improvement Factor (Cumulative)		0.96		0.94		0.93
6			1,312	848	1,315	1,512	1,333
7 Transmission and Distribution Upgrade							
8	Cost Driver	Peak MW (Normalized)	666		664		660
9	Base Cost	(\$ 1998)	14,224		14,224		14,224
10	Base Cost Escalator	CPI Canada (Cumulative)	1.072		1.095		1.122
11	Productivity Improvement Factor (Cumulative)		0.96		0.94		0.93
12			9,751	10,270	9,737	10,303	9,812
13 Distribution Extensions							
14	Cost Driver	Number of New customers	1,390		1,448		1,493
15	Base Cost	(\$ 1998)	1,325		1,325		1,325
16	Base Cost Escalator	CPI Canada (Cumulative)	1.072		1.095		1.122
17	Productivity Improvement Factor (Cumulative)		0.96		0.94		0.93
18			1,896	1,888	1,978	1,415	2,068
19 General Plant							
20	Cost Driver	Direct Customers	88,527		89,946		91,417
21	Base Cost	(\$ 1998)	44.14		44.14		44.14
22	Base Cost Escalator	CPI BC (Cumulative)	1.047		1.069		1.090
23	Productivity Improvement Factor (Cumulative)		0.96		0.94		0.93
24			3,930	4,508	3,995	2,893	4,098
25 Total Base Capital Expenditures			\$ 16,890	\$ 17,514	\$ 17,026	\$ 17,684	\$ 17,310

2003 REVENUE REQUIREMENTS

JANUARY 15, 2003

Table 8-C Aggregate Capital Expenditures

	Actual	Current	Forecast
	2001	Estimate	2003
		2002	
		(000s)	
<u>Previously Approved:</u>			
1 South Slokan Unit 2 Upgrade/Life Extension	3,669	(72)	
2 Upper Bonnington Unit 5 Upgrade/Life Extension	2,714	1,766	5,880
3 Upper Bonnington Dam Rehabilitation		30	420
4 Upper Bonnington Powerhouse Crane	243	188	
5 Kootenay 230kV System Development	9,285	46,800	10,413
6 Insulator Replacements	224		
7 CSP Transformer Replacement	1,239	71	
8 Penticton Subtransmission System Upgrade	342	3	
9 Vernon Capacitors	1,066	295	
10 44 Line Easement		551	
11 Slokan City Substation Redevelopment	531	659	150
12 Joe Rich Reconductoring		400	475
13 Kootenay Area Voltage Conversions	1,946	1,185	300
14 Kelowna Operations Center	334	3,266	
15 Trail District Facilities Upgrade		1,100	3,530
16 Intergraph AM/FM System	568	1,060	
<u>To be Approved:</u>			
17 Upper Bonnington Unit 6 Upgrade/Life Extension			2,491
18 Upper Bonnington Unit 5 Headgate Reguild			302
19 Lower Bonnington Unit 1 Upgrade/Life Extension			1,208
20 South Okanagan Supply Reinforcement		938	7,143
21 Substation Metering/Automation			200
22 Lambert Substation Upgrade		112	3,612
23 Lee Terminal Upgrade			5,871
24 Midway Substation Rehabilitation			1,026
25 West Trail Voltage Conversion		200	777
26 Integrated Enterprise Resource Management System		6,625	
27 Warfield-Okanagan Fibre Optic Communications			209
28 Pension Benefits Capitalized			331
	22,161	65,177	44,338
<u>Demand Side Management</u>			
29 Demand Side Management	1,449	1,722	1,840
30 DSM Income Tax Adjustment	(656)	(656)	(692)
	793	1,066	1,148
30 Total Extraordinary Capital Expenditures	22,954	66,243	45,486
31 Total Base Capital Expenditures	17,514	17,684	17,310
32 Total Capital Expenditures	40,468	83,927	62,796

Notes: Expenditures for 230 kV Transmission project are net of third party contributions.

Pension Benefits Capitalized are included in project expenditures for 2001 and 2002.



Aquila

January 28, 2003

Via Fax

CONFIDENTIAL

Mr. W.J. Grant
Executive Director
BC Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Grant:

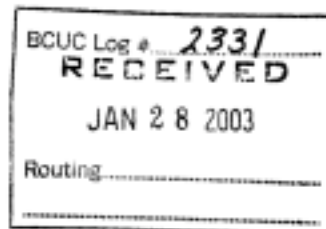
*Re: 2002 Annual Review and 2003 Revenue Requirements Application
Negotiated Settlement Agreement*

In reply to your letter of January 24, 2003, Aquila endorses, without qualification, the Negotiated Settlement Agreement dated January 17, 2003.

Yours truly,



Bryan Curtis
Vice President, Regulatory



FROM : J&B SLACK
1441 FURNISH BUILDING

PHONE NO. : 1 250 498 6824
☎ (604) 660-1102

JAN. 24 2003 05:28PM P1
Jan. 24, 2003 03:34 PM 02/2

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



SIXTH FLOOR, 900 HOWE STREET, BOX 260
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-683-1305
FACSIMILE: (604) 660-1102

CONFIDENTIAL

VIA FACSIMILE

January 24, 2003

Dear Participants:

Re: Aquila Networks Canada (British Columbia) Ltd.
2002 Annual Review and 2003 Revenue Requirements Application

Commission staff received no suggested edits to the draft of the Negotiated Settlement Agreement on the Aquila Networks Canada (British Columbia) Ltd. Application for Approval of the 2002 Annual Review and 2003 Revenue Requirements Application and it is therefore accepted as the final copy.

Please provide written correspondence confirming your acceptance of this settlement by Thursday, January 30, 2003. The Negotiated Settlement Agreement and letters of comment from the participants will be made public and forwarded to the Commission for its review.

Prior to consideration by the Commission, intervenors who did not participate in the settlement negotiations will be requested to provide to the Commission their comments on the settlement package by Monday, February 10, 2003. Thereafter, the Commission will consider the settlement package.

Yours truly,

Original signed by:

W.J. Grant

BCUC Log # <u>1307</u>
RECEIVED
JAN 27 2003
Routing _____

WJG/rt

BCUC.
Attn: William J. Grant.

Dear Sir,

I accept this settlement. Thank you!

Regards,

Ernst Slack

RR#1, S-50, C-1, Oliver, BC V0H1T0

THE FOLLOWING INFORMATION IS FOR YOUR INFORMATION ONLY

FAX: 858 592 1844

PAGE 1

Natural Resources Industries
Box 19
Hedley, BC, V0X 1K0
Fax: (250) 292-8692

Robert Pellatt
BCUC
Fax: (604) 660-1102

January 28, 2003

Dear Mr. Pellatt,

Please be advised that NRI accepts the proposed negotiated settlement agreement for the Aquilla 2002 Incentive Mechanism and 2003 Rate Requirements as contained in your fax.

Yours truly,



RICHARD TARNOFF

BCUC Log # <u>2327</u>
RECEIVED
JAN 28 2003
Routing: _____

01/29/2003 10:42

CITY OF KELOWNA THRU

P.01

I.M.E.U.

Interior Municipal Electrical Utilities

Cities of Kelowna, Penticton, Grand Forks, District of Summerland, Nelson Hydro, Princeton Light & Power

FAXED

January 29, 2003

Mr. W. J. Grant
Executive Director, Regulatory Affairs & Planning
British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, British Columbia
V6Z 2N3

"CONFIDENTIAL"


Dear Mr. Grant:

**Re: Aquila Networks Canada (British Columbia) Ltd.
2002 Annual Review and 2003 Revenue Requirements Application**

The Municipal Electrical Utilities from the City of Kelowna, City of Nelson, City of Grand Forks, City of Penticton and District of Summerland are jointly endorsing the Settlement Agreement achieved with respect to the Aquila Networks Canada (British Columbia) Ltd. 2002 Annual Review and 2003 Revenue Requirements Application.

Our Municipalities fully support the Negotiated Settlement Process and recommends the conclusions arrived at on January 13th and 14th, 2003 be forwarded for review by the Commission.

Respectfully submitted,


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

cc Interior Municipal Electrical Utilities

BCUC Log # <u>2348</u>
RECEIVED
JAN 30 2003
Routing _____

TOTAL P.01

John B Hall, 1/29/03 4:57 PM -0800, AQUILA - 2002 Annual Review and 2003 Revenue

1

From: "John B Hall" <a4a33434@telus.net>
To: "BCUC Commission Secretary" <Commission.Secretary@bcuc.com>
Cc: "Kelsey Keglovic" <kelsey@plpower.com>,
"PLP Information" <info@plpower.com>
Subject: AQUILA - 2002 Annual Review and 2003 Revenue Requirement
Date: Wed, 29 Jan 2003 16:57:49 -0800
X-Priority: 3 (Normal)
Importance: Normal

Rob Pellatt, Commission Secretary
BRITISH COLUMBIA UTILITIES COMMISSION

Dear Sir:

RE: Negotiated Settlement Agreement on the Aquila Networks Canada
(British Columbia) Ltd. Application for
Approval of the 2002 Annual Review and 2003 Revenue Requirements.

Princeton Light & Power accepts the "Negotiated Settlement Agreement" as
distributed in Draft Form by the Commission.

John B. Hall
Princeton Light & Power



Alan Wait
Box 2663
Grand Forks, B.C.
V0H
alwait@telus.net
Jan. 30, 2003

Mr. William J. Grant
Executive Director, Regulatory Affairs & Planning
Sixth Floor
900 Howe St., Box 250
Vancouver, B.C.
V6Z 2N3

Re: Aquila Networks Canada (British Columbia) Ltd.
2002 Annual Review and 2003 Revenue Requirements Application

Dear Mr. Grant:

I do agree with the BC Utilities Commission approach to extend 1999 Settlement Agreement for one year considering the uncertainties of the immediate future. The rate increase appears to be in order as it is largely a result of increased capital costs and wage rates.

However, I do have to express my concern regarding the rapidly escalating cost of Brilliant power. When the Brilliant Power Purchase Agreement (BPPA) was proposed in 1996, the projected cost of power in 2003 was \$27.25 /Mwh, while the targeted cost for Brilliant power in 2003 is now \$33.19/Mwh, before factoring in the new Brilliant Terminal Station. This excessive increase has occurred in spite of the removal of the BC Capital tax and no increases since 1996 in the water fees.

I would ask that the Utilities Commission more closely scrutinize capital expenditures at Columbia Basin Power's Brilliant Dam in the future. Columbia Basin Power should be delivering reliable power at the lowest possible cost to the ratepayers. The job of "economic development of the region" should be left directly to the Columbia Basin Trust. Excessive power costs ARE detrimental to the economic well being Kootenay, Boundary and Okanagan regions.

I hope that you can act upon my comments regarding Columbia Basin Power and future capital expenditures at the Brilliant Dam.

Sincerely yours,

Alan Wait

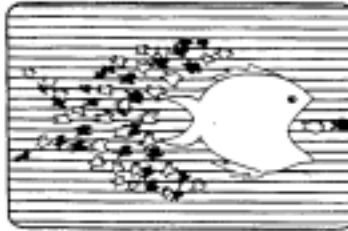
01/30/03 THU 10:11 FAX 604 682 7898

B C PIAC

001

The
British Columbia
Public Interest
Advocacy Centre

815-815 West Hastings Street
Vancouver, B.C. V8C 1B4
Tel: (604) 687-3063 Fax: (604) 682-7898
email: bcpiac@bcpiac.com
http://www.bcpiac.com



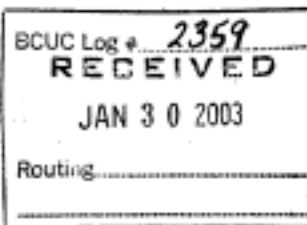
Michael P. Doherty	687-3034
Richard J. Gethercole	687-3006
Sarah Khan	687-4134
Patricia MacDonald	687-3017
Natasha Edgar	687-3044
(terried student)	
Barristers & Solicitors	

January 30, 2003

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

BY FAX: (604) 660-1102

Dear Mr. Grant:



File #7226

**Re: Aquila 2002 Annual Review and Preliminary 2003 Revenue
Requirements and Incentive Mechanism Review**

On behalf of CAC(BC) et al., we confirm acceptance of the Negotiated Settlement Agreement in the above-noted matter.

Sincerely,
B.C. Public Interest Advocacy Centre

Michael P. Doherty
Barrister & Solicitor

c: parties

P:\MSOFFICE\MICHAEL\7000\7226 Aquila 2002 Annual Review & 2003 Rev Req\Budget cover.doc