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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-6-04

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

and

**An Application by Aquila Networks Canada (British Columbia) Ltd.
for Approval of Preliminary 2004 Revenue Requirements**

BEFORE: L.A. Boychuk, Panel Chair and
Commissioner)
L.F. Kelsey, Commissioner) January 12, 2004
R. Milbourne, Commissioner)

O R D E R

WHEREAS:

- A. On November 19, 2003, Aquila Networks Canada (British Columbia) Ltd. ("Aquila" or "Company") filed a Preliminary 2004 Revenue Requirements Application ("the Application") with the Commission. Aquila applied pursuant to the applicable provisions of the Utilities Commission Act ("the Act") and in particular Sections 58, 60, and 61 for an Order to set rates in accordance with a rate adjustment mechanism for 2004. Aquila recommended a Negotiated Settlement Process ("NSP"), pursuant to the Commission's Guidelines, to determine the 2004 Revenue Requirements and the parameters of the Incentive Mechanism. The Company also requested that the 2003 Annual Review of its performance be scheduled prior to the NSP; and
- B. Due to the impending sale of the Canadian business of Aquila Networks Canada Corp. to Fortis Inc. and the potential for restructuring, Aquila is proposing, for this period of transition, a one year extension of the current Settlement Agreement, which expires on December 31, 2003, subject to certain changes as described in the Application; and
- C. The Application requested, among other significant items, approval for interim refundable rate relief of 3.4 percent (subsequently amended to 3.6 percent to take into account the Commission approved rate of return on equity for the calendar year 2004), a variance from Generally Accepted Accounting Principles ("GAAP") to treat the lease obligation for the Brilliant Terminal Station agreement as an operating lease, rather than a

capital lease, and approval for the establishment of several deferral accounts to record specific expenditures; and

- D. In accordance with Commission Order No. G-79-03, a Pre-hearing Conference was held on Thursday, December 18, 2003, at the Prestige Inn, 1675 Abbott Street, Kelowna, B.C. V1Y 8S3, to discuss certain significant items in the Application and the proposed regulatory process; and
- E. A written report summarizing the positions of participants with respect to certain items and the proposed regulatory process was prepared by Commission staff and reviewed by the Commission Panel. The report indicated that at the Pre-hearing Conference, participants:
- either supported or took no position regarding the request for interim rates;
 - agreed to the variance from GAAP to treat the lease obligation for the Brilliant Terminal Station agreement as an operating lease, rather than a capital lease;
 - supported the establishment of the proposed deferral account for the Brilliant Terminal Station Expense for 2003, with further discussions on this and other proposed deferral accounts to occur at the revenue requirement proceeding; and
 - either accepted, or did not object to, a NSP as appropriate to determine the 2004 Revenue Requirements.

In addition, participants were given the opportunity to make separate written submissions regarding the above matters to the Commission by December 22, 2003. No further submissions were received; and

- F. Commission Order No. G-91-03 approved an interim increase of 3.6 percent, effective January 1, 2004, subject to refund with interest calculated for the refund period at the average prime rate of the principal bank with which Aquila conducts its business; and
- G. Commission Order No. G-2-04 approved a variance from GAAP to treat the lease obligation for the Brilliant Terminal Station agreement as an operating lease, rather than a capital lease, and approved the establishment of a deferral account for the Brilliant Terminal Station Expense for 2003; and

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- H. The Commission now requires that a regulatory process to deal with the Application be established; and
- I. The Commission notes the comments of participants at the Pre-hearing Conference, as relayed by Commission Staff, and the support expressed for a NSP regulatory process to consider Aquila's 2004 Revenue Requirements Application and the Commission notes that an annual review process is required to be conducted and would most effectively and efficiently be dealt with at the same time or in conjunction with a NSP process and, finally, that given the proposed sale to Fortis Inc., this may be considered to be a 'transition year'.

NOW THEREFORE the Commission orders as follows:

1. The Commission will hold a 2003 Annual Review on Tuesday, February 24, 2004 commencing at 9:00 a.m. in the Sandman Hotel, 939 Burnaby Avenue West, Penticton, B.C., V2A 1G7.
2. The Commission approves a Negotiated Settlement Process to determine rates for 2004, commencing at 9:00 a.m. on Wednesday, February 25, 2004 at the same location, and has established the Regulatory Timetable attached as Appendix A.

DATED at the City of Vancouver, in the Province of British Columbia, this 16th day of January 2004.

BY ORDER

Original signed by:

Lori Ann Boychuk
Panel Chair and
Commissioner

REGULATORY TIME TABLE

Aquila Networks Canada (British Columbia) Ltd. – 2003 Annual Review and
2004 Revenue Requirements Application

ACTION

DATES

Filing of Information Requests to Aquila	Thursday, January 29, 2004
Aquila to Respond to Information Requests	Thursday, February 12, 2004
2003 Annual Review and Public Information Town Hall Meeting	Tuesday, February 24, 2004
Negotiated Settlement Process on 2004 Rates	Wednesday, February 25, 2004