



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

An Application by UtiliCorp Networks Canada (British Columbia) Ltd.
(formerly West Kootenay Power Ltd.)
for the 2001 Annual Review and Incentive Mechanism Review Application
and Approval of 2002 Revenue Requirements

BEFORE: P. Ostergaard, Chair)
K.L. Hall, Commissioner) December 20, 2001
N.F. Nicholls, Commissioner)

O R D E R

WHEREAS:

- A. Commission Order No. G-134-99, dated December 16, 1999, approved the November 22, 1999 Settlement Agreement setting up an amended rate adjustment mechanism for the period beginning January 1, 2000 and ending December 31, 2002, whereby UtiliCorp Networks Canada (British Columbia) Ltd. ("UNC") is required to file annually with the Commission materials for a rate change, if any, effective January 1 of the next year; and
- B. The terms of the Settlement Agreement require that an Annual Review process be instituted, whereby the public will be invited to examine the filed material, submit other issues for determination by the Commission, and meet to review all issues prior to the final rate application being made; and
- C. In accordance with Commission Order No. G-114-01 dated October 25, 2001, an Annual Review was held which reviewed the Preliminary 2002 Revenue Requirements and Incentive Mechanism Review Application filed on November 9, 2001, after which participants submitted their comments on the issues to the Commission; and
- D. UNC's performance in 2001 against each of the standards agreed to in the 1998 Settlement Agreement, as amended in the 1999 and 2000-2002 Settlement Agreements, was also reviewed in order to determine whether UNC has earned its incentive adjustments; and
- E. In accordance with Commission Order No. G-134-99, UNC filed on December 12, 2001 its Application for a general rate increase of four and one-half percent for all customer classes effective January 1, 2002; and

- F. The Application includes a preliminary incentive variance of \$931,000 to be shared 50/50 between UNC and its customers provided that UNC meets its performance standards for 2001; and
- G. The Commission has reviewed the material and finds that approval of UNC's 2002 Revenue Requirements is required and in the public interest.

NOW THEREFORE the Commission orders as follows:

1. A general rate increase of four and one-half percent for all customer classes effective January 1, 2002 is approved.
2. UNC has met its performance standards in accordance with the Incentive Sharing Mechanism and has earned its portion of the preliminary sharing adjustment for 2001.
3. The Commission will accept revised Electric Tariff Rate Schedules in accordance with the terms of this Order.
4. UNC is to inform all customers of the rate schedule changes approved by this Order.

The Commission will, at a later date, issue Reasons for its Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 20th day of December 2001.

BY ORDER

Original signed by:

Peter Ostergaard
Chair

REASONS FOR DECISION

Commission Order No. G-133-01, dated December 20, 2001, determined that UtiliCorp Networks Canada (British Columbia) Ltd. ("UNC") had met its performance standards in accordance with the Incentive Sharing Mechanism and had earned its portion of the preliminary sharing adjustment for the year 2001. The Order also stated that the Commission would issue its Reasons for Decision.

UNC can earn two financial incentives contingent upon meeting specific measures of performance. Pursuant to the terms of the Settlement Agreement, approved by Commission Order No. G-134-99, UNC can earn 50 percent of the cost of service saved from that forecast in revenue requirements, provided it meets certain Quality of Service Performance Measures. UNC can also earn a sliding scale incentive for incremental energy saved through its PowerSense Demand-Side Management program. Neither of these incentives received unanimous consent at the Annual Review. The Commission determined that UNC should receive both the incentives for the following reasons.

A. Quality of Service Performance and Incentive Sharing

UNC's quality of service performance in 2001 was tested against each of the standards agreed to in the 1998 Settlement Agreement, as amended in the 1999 and 2000-2002 Settlement Agreements. UNC's 2002 Revenue Requirements Application included a preliminary 2001 incentive variance of \$931,000 to be shared 50/50 between UNC and the ratepayer. The final determination of the 2001 incentive amount will occur in the next Revenue Requirements proceeding for UNC when a final accounting of costs for 2001 will be available.

Participants in the Annual Review were invited to provide submissions on 2001 incentive payment matters by December 18, 2001. The following comments were received from participants.

The Interior Municipal Electrical Utilities assert that all cost sharing incentives, other than Demand-Side Management ("DSM"), should be denied. The City of Trail questions the level of UNC capital expenditures and notes their ongoing perception of a subsidy flowing from the Kootenays to the Okanagan. The British Columbia Public Interest Advocacy Centre representing their clients the Consumers' Association of Canada (B.C. Branch) et al. ("CAC (B.C.) et al."), accepts UNC's explanations of reductions in customer satisfaction as "credible", but asserts that UNC is responsible for the perceived reductions nonetheless.

With regard to the preliminary incentive variance of \$931,000 to be shared 50/50 between UNC and the ratepayer, the following facts have been considered by the Commission.

The safety and reliability statistics of UNC are improving and are very good, especially in view of the labour dispute that the utility experienced during the year. System reliability performance standards measure average hours of interruption per customer and the number of interruptions experienced by customers. In both cases, performance improved over year 2000. Expressed in percentage terms, power was available to the average customer 99.973 percent of the time in 2001, a slight improvement over 2000. Performance measures of generator reliability were significantly improved over year 2000. Safety and health indicators are generally within recent performance and a renewed emphasis upon worker safety and health is evident.

Customer satisfaction statistics in 2000 had a large number of “don't knows” which caused a bias that resulted in UNC not receiving the incentive. A response of “I don't know” cannot be taken as either a positive or a negative response and these responses were properly excluded from the 2001 analysis. Regardless of the improvement in method, the 2001 customer satisfaction survey contradicted the measured improvements in reliability and safety. The Commission considers that the survey results are most likely skewed by customers' concerns about electricity deregulation and volatile gas prices, both issues unrelated to UNC. The labour dispute had some negative impacts upon customers but UNC managed well during the dispute.

The Commission believes that UNC has generally met its performance standards in accordance with the Incentive Sharing Mechanism as defined in the 1999 and 2000-2002 Settlement Agreements. The Commission, in Appendix A of Order No. G-123-98, clarified UNC's performance standards:

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

To qualify for the incentive, UNC must achieve a general, overall balance between cost efficiency, service reliability, safety and customer satisfaction. The Commission continues to encourage the utility to find further savings to share with customers while maintaining safe, reliable service.

B. Demand-Side Management

The December 18, 2001 submission of the CAC (B.C.) et al. raises a number of issues with respect to UNC's DSM programs. The CAC (B.C.) et al. submits that the actual 2000 DSM cost shown on line 25 of Table 6-B of UNC's December 12, 2001 filing should be \$1,698,000 instead of \$1,752,000. The CAC (B.C.) et al. expressed concern about the fact that UNC spent around \$156,000 more on DSM than it had planned, but did not oppose UNC recovering its full expenditures and the 2000 DSM incentive (\$21,590) in rates. The CAC (B.C.) et al. also suggested that the impact of the spending above 110 percent of planned expenditures should be clarified and explicitly incorporated into the DSM Incentive Mechanism for 2002.

UNC provided a reconciliation of the DSM expenditure figures shown on line 25 of Table 6-B in its response to Commission Staff Information Request No. 2, Question 4.0. UNC indicated that the 2000 DSM expenditure figure (\$1,752,000) is comprised of actual 2000 DSM expenditures (\$1,691,000), last year's estimate of the DSM incentive for 2000 (\$23,500) and a true-up of the 1999 DSM incentive (\$38,000). Slight timing differences are responsible for the difference between the \$1,691,000 actual DSM cost and the \$1,698,000 figure cited by the CAC (B.C.) et al. The DSM expenditure figure for 2001 (\$1,446,000) includes estimated expenditures for 2001 (\$1,422,000), an estimate of the incentive for 2001 (\$26,000) and a true-up for the 2000 incentive (final incentive for 2000 of \$21,590 – last year's estimate of \$23,500 = -\$1,910). The DSM expenditure figure shown for 2002 (\$1,661,000) consists entirely of estimated DSM costs for 2002 and does not include an allowance for incentives.

Based on this reconciliation, the Commission is satisfied that the DSM expenditure figure for 2000 of \$1,752,000 is accurate. With regard to the \$156,000 cost overrun for DSM in 2000, the Commission notes that the 2000-2002 UNC Settlement Agreement is silent on the issue of DSM spending in excess of 110 percent of planned expenditures, that no parties opposed recovery of all 2000 DSM expenditures and that the program in which the cost overrun occurred provided benefits to customers. The Commission, therefore, approves recovery of the full amount, in this instance. The Commission also approves the final DSM incentive of \$21,590 for 2000 and the estimated DSM incentive for 2001 of \$26,000. The DSM incentive for 2001 will be trued-up next year. The Commission directs UNC to work with the DSM Committee members early in 2002 to clarify the impact of spending more than 110 percent of planned expenditures on the incentive calculation and include the resulting clarifications in the 2002 Incentive Mechanism.

The Commission believes that the concerns of the CAC (B.C.) et al. arose, in part, because information was provided to the DSM Committee too late, the figures provided required revision or did not always match comparable figures from other documents, and responses to information requests were not always circulated to all DSM Committee members. In the future, the Commission expects UNC to provide complete and accurate information to the DSM Committee well in advance of the Annual Review and ensure that all DSM Committee members receive copies of UNC responses to questions from other Committee members.