

IN THE MATTER OF the Utilities
Commission Act, S.B.C. 1980, c. 60,
as amended

and

IN THE MATTER OF
an Application by
HEMLOCK VALLEY ELECTRICAL
SERVICES LTD.

DECISION

July 8, 1983

Before:

J.D.V. Newlands, Deputy Chairman
N. Martin, Commissioner
R.J. Ludgate, Commissioner

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LIST OF APPEARANCES

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M. HADADE	Representing Hemlock Valley
C.J. HANSEN	Electrical Services Limited
J.M. GALBRAITH	
J. POLLOCK	Hemlock Valley Ratepayers
	Association
D. HOLDEN	Self
R. GAINES	Self
B. HAWKSHAW	Self
D. CHULEY	Self
J. Grunau	Commission Staff
R. Brownell	
J. Hodson	
D. Leach	Hearing Officer
W.B. Audiotron	
Enterprises Ltd.	Court Reporters

LIST OF EXHIBITS

	<u>Exhibit No.</u>
Commission Order No. G-13-83	1
Letter August 12, 1983 Hemlock Valley Electrical Services Limited - B.C.U.C. Proposed Changes to the Tariff for Electrical Service in the Hemlock Valley Lease Area August 11, 1982	2
Letter November 23, 1982 - Mr. A. Herring and Proposed Tariff - B.C.U.C.	3
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INTRODUCTION

This decision is made following a public hearing on June 7, 1983 in Vancouver on an application of Hemlock Valley Electrical Services Ltd. ("Hemlock"). The application, filed on November 13, 1982 and given conditional approval by Order G-82-82 issued December 14, 1982, sought final approval of a new tariff schedule. The new tariff schedule reflected adjusted rates as a result of the introduction of purchased power from the British Columbia Hydro and Power Authority ("B.C. Hydro") through a new intertie constructed by Hemlock under the authority of Certificate of Public Convenience and Necessity C-5-82. Intervenor in the hearing included several residential customers and the Hemlock Valley Ratepayers Association. B.C. Hydro filed a notice of intervention but did not attend the hearing.

BACKGROUND

Hemlock is a subsidiary of Hemlock Valley Recreations Ltd. ("Hemlock Recreations") which company owns and leases land in the Hemlock Valley of the Lower Mainland of British Columbia for year-round recreational use. Hemlock provides underground electric service to residential consumers and to Hemlock Recreations for use in a ski lodge, lifts and a maintenance area; to Hemlock Property Management Ltd. for residential use on residential properties; and to Hemlock Valley Sanitary Service Ltd. for a sewer system serving the recreation area. All three companies are wholly-owned subsidiaries of Hemlock Recreations. Hemlock Recreations is owned by Allan Holdings Ltd., a B.C. company controlled by Allan J. Eyre.

The recreation facility initially commenced operation in 1977 and the utility first appeared before the British Columbia Energy Commission in May 1980 and a decision was issued on June 20, 1980.

Hemlock is currently operating under Certificate of Public Convenience and Necessity C-23-80 issued in June 1980 and Certificate of Public Convenience and Necessity C-5-82 issued on September 14, 1982 which authorized the construction of facilities to interconnect Hemlock facilities to B.C. Hydro transmission lines.

The tariff covering the rates and terms of service under which Hemlock operates was originally approved by Order G-40-80 in June 1980 which followed a public hearing of an application for the initial Certificate and an order approving rates. This order was subsequently amended by Order G-82-82 dated December 14, 1982 issued following an application of November 13, 1982. This latter Order put in place reduced rates for service by Hemlock following the completion of the interconnection with B.C. Hydro. Order G-82-82 provided that the rates in the approved tariff would be subject to review in a public hearing to determine the appropriate level of rates and any adjustments or refunds.

The hearing, originally scheduled to commence April 27, 1983, was postponed to June 7, 1983.

ISSUES

The questions at issue in the application are primarily related to matters associated with the setting of a tariff which will reflect proper costs of service and will offer and maintain reasonable levels of service.

Hemlock is providing a utility service to commercial accounts and residences in a recreation area which is still in a developmental stage and which has been materially affected by the downturn in the provincial economy. Nonetheless the utility has taken significant steps to reduce the cost of power and improve the reliability of service through the interconnection with B.C. Hydro. The utility still faces difficult times, however the Commission is encouraged by

the efforts of the new management to deal with the outstanding issues and this decision will therefore deal only with those matters essential to the maintenance of a reasonable level of rates and service.

A major issue is to identify the utility investment on which the utility is entitled to charge for service. The initial decision in 1980 attributed a rate base of \$590,000 to the utility operation. Adjustments to this figure and the application of adjusted costs of service resulted in a calculated loss of 7.69% on rate base in the year ended December 31, 1980. This was a theoretical calculation and events have proven that a different approach must be taken in order to establish fair and reasonable rates for service.

A major concern arises because of the consideration of undertakings given in the prospectus of Hemlock Valley Estates Limited which was filed following the hearing. It is clear, as was indicated by Mr. Holden an intervenor in the hearing, that the purchasers of residential property in the recreation area had the right to expect electric service "as a public convenience installed by the developer at its own costs". The electric power was to be provided by a utility company at rates "as approved by the Utilities Commission until such time as B.C. Hydro and Power Authority installs its own power lines into the Hemlock Valley Resort area and takes over power supply and distribution responsibilities" (see Page 4 of Prospectus filed with Superintendent of Insurance).

It is also apparent from other statements in the prospectus that a purchaser of property could expect that all services would have been completed and paid for "by the Developer from its own resources" (see Page 6 Prospectus).

All of the foregoing compound the problem of establishing fair and reasonable rates for electric service. While it appears that residents could expect to have service available, a good deal of the plant upon which rates would be set, usual regulatory practice prevailing, is not usable as a practical test because of the

undertakings in the prospectus. This is further complicated by the addition of the facilities authorized by Order C-5-82 which the utility added to provide power purchased from B.C. Hydro to replace the diesel generated power.

DECISION

The Commission feels that a reasonable approach to establishing the rates for electric service in the recreation area at this time must therefore be generally based on the costs of the power purchased from B.C. Hydro plus the cost of the connection authorized by C-5-82 and any maintenance and charges related to the day to day operation of the system. This will allow the utility system to break even on its costs of operation. In order that a small reserve for contingencies accrue the Commission will increase the amount of costs used for rate making by 10%. This treatment should ensure the maintenance of a reasonable level of service to consumers and, at the same time, recognize the undertakings given in the prospectus.

The first cost issue in this application relates to the amortization of the costs of the intertie to B.C. Hydro. This connection was approved by the Commission in Certificate of Public Convenience and Necessity C-5-82. The original proposal envisaged a cost recovery over a 5 year period and the Commission will utilize this rather than the 3 year period used in the rate application. The 5 year period is an unusually short period of time over which to amortize a major capital addition to utility plant but in the unique circumstances of Hemlock the Commission considers it an appropriate treatment. Therefore the annual amortization has been reduced from \$139,894.44 to \$99,840.18, a reduction of 1.55¢/kW.h. The rates will reflect this charge until the loan is fully amortized at which time the charge will reduce.

The second cost issue relates to the inclusion of certain unrecovered diesel operation costs. The Commission cannot allow these costs to be carried forward in determining a revenue requirement on which to base current rates. These costs are attributable to an earlier period and if unrecovered were a loss in that period. The only costs which can be recovered through current rates are those associated with the unexpired lease extending to December 17, 1983.

The tariff proposed by Hemlock provides rates which, for residential consumers, rise with consumption over a minimum charge of \$15.00 per month; and which for commercial consumers are demand and energy related with a demand rate of \$5.00/kW of monthly billing demand and a flat rate for energy of 10.02¢/kW.h.

Hemlock does not actually measure commercial consumption but rather derives the quantity by the deduction of residential sales from total sales. The Commission decision in 1980 directed that meters be installed to measure commercial consumption. This has not been done. The Vice-President and General Manager, Mr. Hadade who assumed his current position in July 1981 only became aware of the failure to comply with the direction in the fall of 1982. The present delay relates only to the expense, estimated at \$35,000 to \$45,000. That, in itself, is not justification for the non-compliance. The commercial load is the major component of the total load which peaks at mid-day. The Commission will not insist on the introduction of the meters at this time however, because the rate design proposed will ensure a reasonable contribution by that sector. Because of the close corporate relationship of the utility and the commercial customers under the Hemlock Recreation umbrella it is important that the rate treatment must be, and be seen to be, fair to all concerned.

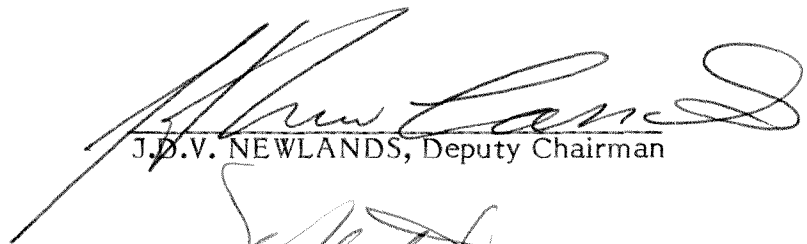
The Commission directs that Hemlock prepare and file a rate schedule which will maintain the minimum charge of \$15.00 per month and have as its major component a flat rate of 11.5¢ per kW.h to each class of customer effective for all consumption after July 1, 1983. This schedule will generate a revenue of approximately \$139,000 from residential customers. As these new rate schedules are modestly lower than those in place at December 17, 1982, the date of commencement of power supply from B.C. Hydro, there has been an over-collection of revenue. Hemlock is directed to determine the amount of such overcollection and refund with interest, as specified in Order G-82-82, the appropriate amounts. Schedules I and II setting forth allowed revenue and expense and the proposed rate structure are attached.

There are several other matters which require comment. The first relates to the interconnection between the utility system and the structures served. The Commission believes that it is more appropriate that the utility charge a customer the difference between an estimate of an overhead construction charge and the actual underground costs on any connection. The second matter relates to security deposits. The record discloses that while Hemlock has a tariff requirement of a security deposit of \$150.00 on new residential accounts, it has not been collected on all such accounts. This provision must be enforced for new customers or the tariff changed. The security deposit for commercial customers of three months of the customer's gross revenue to the utility must similarly be collected. The utility, as well, must allow interest to accrue on existing and new security deposits at an average annual savings account rate of the bank with which it deals. These two matters should be set out in the tariff to be filed as a result of this Decision.

Unquestionably Hemlock could use some standby capacity in the event of an outage on the B.C. Hydro system or the intertie. Although the hook-up of these units may be difficult, the acquisition of one or more of the diesel units would provide a measure of security to the utility operation and would seem practical if purchase costs were reasonable. This should be investigated by Hemlock.

Our prime concern in this Decision has been to deal fairly and equitably with the tariff problems and, at the same time, allow the utility operation to continue in operation and to develop. When major developments occur in the area the utility will have to expand and any capital additions will require the approval of the Commission. In addition, as resources permit, Hemlock should calculate its investment between the point of interconnection with the utility system and the structures. This investment, calculated in a manner consistent with the connection policy, would form part of the utility rate base.

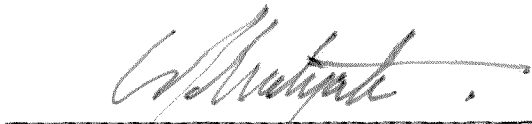
DATED at the City of Vancouver, in the Province of British Columbia this 8th day of July, 1983.



J.D.V. NEWLANDS, Deputy Chairman



N. MARTIN, Commissioner



R.J. LUDGATE, Commissioner



BRITISH COLUMBIA UTILITIES COMMISSION	
ORDER NUMBER	G-47-83

PROVINCE OF BRITISH COLUMBIA

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF the Utilities Commission
Act, S.B.C. 1980, c. 60, as amended

and

IN THE MATTER OF an Application by
Hemlock Valley Electrical Services Ltd.

BEFORE:	J.D.V. Newlands,)	
	Deputy Chairman;)	
	N. Martin,)	July 8, 1983
	Commissioner; and)	
	R.J. Ludgate,)	
	Commissioner)	

O R D E R

WHEREAS Hemlock Valley Electrical Services Ltd.
("Hemlock") applied November 13, 1982 for amended Tariff Rate
Schedules reflecting the introduction of electric power
purchased from B.C. Hydro as a replacement for diesel
generated power; and

WHEREAS the purchased electric power is trans-
mitted through a new intertie transmission line constructed
by Hemlock under Certificate C-5-82; and

WHEREAS the Commission issued Order No. G-82-82
authorizing interim reduced rates to become effective on and
after the date on which B.C. Hydro commenced the supply of
electric power; and

WHEREAS the interim reduced rates were authorized
subject to refund with interest pending a public hearing of
Hemlock's Application; and

WHEREAS the Application was heard in public at
the Commission hearing room June 7, 1983, and the Commission
has considered the evidence adduced.

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**BRITISH COLUMBIA
UTILITIES COMMISSION**

ORDER

NUMBER G-47-83

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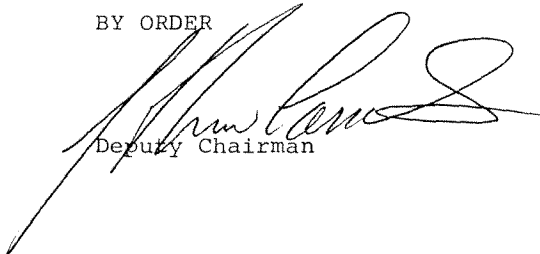
NOW THEREFORE the Commission hereby orders

Hemlock Valley Electrical Services Ltd. as follows:

1. Hemlock will prepare and file with the Commission a Tariff Rate Schedule which will maintain a minimum monthly charge of \$15.00 but will have as its major component a flat rate for consumption of electricity on and after July 1, 1983 of 11.5 cents/kWh applicable to each class of customer.
2. Hemlock is directed to determine the amount of overcollection from its customers since December 17, 1982 and to provide refunds, with appropriate interest, to such customers.

DATED at the City of Vancouver, in the Province
of British Columbia, this 8th day of July, 1983.

BY ORDER


Deputy Chairman

SCHEDULE I

1983
REVENUES AND EXPENSES

<u>Revenue</u>	<u>Application (Exhibit 7)</u>	<u>Commission Adjustments</u>	<u>Adjusted Balance</u>
1 Residential	160,971.24	(22,038.88)	138,932.36
2 Commercial	<u>183,445.64</u>	<u>(28,165.99)</u>	<u>155,279.65</u>
3 TOTAL	\$344,415.88	\$(50,204.87)	\$294,212.01
<u>Expenses</u>			
4 Diesel lease	42,008.88	(17,113.21)	24,895.67
5 Bad debts	20,000.00	-	20,000.00
6 Corporation tax	1,350.00	-	1,350.00
7 Depreciation	20,304.79	(20,304.79)	-
8 Insurance	9,000.00	-	9,000.00
9 Adm. & Maint.	15,038.46	-	15,038.46
10 Tax (property)	16,000.00	-	16,000.00
11 Supplies	1,300.00	-	1,300.00
12 Professional fees	2,500.00	-	2,500.00
13 Miscellaneous	5,000.00	-	5,000.00
14 Contingency	<u>-</u>	<u>9,508.41</u>	<u>9,508.41</u>
15 TOTAL	\$132,502.13	\$(27,909.59)	\$104,592.54
<u>Purchased Electricity</u>			
16 Demand charges			23,648.86
17 Energy charges			<u>66,100.43</u>
18 TOTAL	\$112,944.00	\$(23,194.71)	\$89,749.29
<u>Debt Service Costs*</u>			
19 3 yr. amortization @ 14% interest	139,894.44	(139,894.44)	-
20 5 yr. amortization @ 14% interest	<u>-</u>	<u>99,870.18</u>	<u>99,870.18</u>
21 TOTAL EXPENSES (15 + 18 + 20)	\$385,340.57	\$(91,128.56)	\$294,212.01

* Total capital cost is \$342,862.42

SCHEDULE IIRATESResidential (¢/kW.h)

(1) kWh	(2) Existing	(3) Application *	(4) Commission	(5) = 1 - $\frac{(4)}{(3)}$ % Decrease
First 500	10.70	11.46	11.50	
Next 300	11.56	12.37	11.50	
Next 1000	12.84	13.75	11.50	
Additional	15.03	16.09	11.50	
Average	11.10	11.89	11.50	3.3

Commercial (¢/kW.h)

(1) kWh	(2) Existing	(3) Application	(4) Commission	(5) = 1 - $\frac{(4)}{(3)}$ % Decrease
Energy	9.167	10.02	11.50	
Demand	\$5.00/kW	\$5.00/kW	nil	
Average	11.16	12.01	11.50	4.2

The \$15.00 minimum monthly residential charge buys about 130 kW.h which is less than estimated minimum consumption of 150 kW.h shown in Exhibit 7, Schedule V. The loan repayment surcharge is equal to \$0.0386/kW.h or 38.6 mills/kW.h and will remain in effect until the loan is retired.

* Exhibit 8