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

and

IN THE MATTER OF Applications by
Columbia Natural Gas Limited

DECISION

July 12, 1983

Before:

M. Taylor, Chairman; and
R.J. Ludgate, Commissioner

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APPEARANCES

R.J. GIBBS B.J. WALLACE	Commission Counsel
C.B. JOHNSON	for Applicant, Columbia Natural Gas Limited
K.E. GUSTAFSON	for Crestbrook Forest Industries Ltd.
R.B.L. KIMPTON	for Cominco Ltd.
Ms. H.L. MALKIN	for Fording Coal Limited
R.S. MORRICE	for B.C. Coal Ltd.
T.S. GERELUS	for Crows Nest Resources Ltd.

R.J. FLETCHER S.S. WONG J.A. GREINER	Commission Staff
W.R. HARPER	Hearing Officer
ALL WEST REPORTING LTD.	Court Reporters

I. INTRODUCTION

Columbia Natural Gas Limited ("Columbia" or the "Applicant") applied on June 21, 1982 under Sections 67(2) and 106 of the Utilities Commission Act (the "Act") for interim and permanent rate relief. The interim increase was authorized by Commission Order No. G-51-82 on July 15, 1982 to become effective August 1, 1982. It enabled Columbia to offset increased costs and earn a return on common equity of 16%, up from the existing approved 13.75%. The interim award amounted to approximately \$700,000 or 2.2% over existing rates on an annual basis.

In the application for permanent rate relief Columbia further requests the Commission to:

- (a) Confirm the interim rate increase of approximately 0.4% authorized by Commission Order No. G-18-82 (effective February 1, 1982) for recovery of a property tax increase.
- (b) Amend the schedule of rates authorized by Order No. G-51-82 to allow for a rate of return of 18% on common equity.
- (c) Provide for the creation of a deferred interest account to absorb fluctuations in the interest rate of unfunded debt from that assumed in the Application.

Commission Order No. G-51-82 set down the above Applications for public hearing commencing October 5, 1982 in Cranbrook, British Columbia .

Subsequently, in order to complete a hearing of applications by Inland Natural Gas Co. Ltd. ("Inland"), the Commission rescheduled the public hearing to commence on October 27, 1982 at the same location. The matter of Accounting for Income Taxes with respect to both Inland and Columbia was set down for November 23, 1982 in Vancouver.

Evidence for the Applicant was presented by Mr. C.I. Kleven, Vice-President, Finance; G.M.O. Solly, Vice-President, Operations; Mr. J.L. Randall, Vice-President, Marketing; Mr. W.J. Krampfl, Assistant Manager, Regulatory Affairs and Mr. K. McLean, Vice-President of Columbia. Mr. Kleven also served as policy witness by adopting the prepared testimony of Mr. R.B. Stokes, Executive Vice-President and Chief Financial Officer.

The Applicant retained Mr. Peter T. Brown, Director and Vice-President of Dominion Securities Ames Limited to give evidence on rate of return on common equity.

Industrial intervenors were Crestbrook Forest Industries Ltd., Cominco Ltd., Fording Coal Limited, B.C. Coal Ltd. and Crows Nest Resources Ltd. Mr. E.H. Jackson, Director, Engineering and Planning of Crestbrook Forest Industries Ltd., a special contract customer, gave evidence concerning the impact of the cost of natural gas.

II. ISSUES

The Applicant adopted a forward test year ending June 30, 1983 in place of the historical test year used in previous applications. This is consistent with the methodology used by its parent company, Inland.

Throughout the hearing the participants emphasized the economic conditions and the necessity to minimize costs and expenditures. The Commission is fully aware of the restraints placed on industry by the current economic circumstances and understands the concerns of the intervenors and the efforts of the Applicant to minimize costs.

I. Rate Base

(a) Capital Additions

The Applicant had made reductions to its mains extension budget by the filing of Exhibit 11. Subsequently further downward adjustments were made, all of which were reflected in Exhibit 25, filed by the Applicant.

The Commission accepts the adjusted amount for capital additions.

(b) Lead/Lag Studies

The Applicant has not conducted a lead/lag study since the 1978 Application to establish a proper allowance for cash working capital.

For the purpose of this Decision the Commission is prepared to accept the calculations as presented but suggests that a full lead/lag study be carried out in support of the next rate application.

(c) Amortization of Government Grants and Contributions in Aid of Construction

The Commission accepts Columbia's proposal to amortize the grants and contributions over the estimated service life of each of the related assets by an offset against the provision for depreciation starting in the 1984 fiscal year.

2. Revenue and Cost of Service

(a) Sales Volume

The Commission accepts the Applicant's forecast of residential and commercial use per customer.

The Applicant's forecast of industrial sales for fiscal 1983 is also acceptable to the Commission. However the evidence indicates that sales will increase significantly in fiscal 1984 due to the addition of new loads. The related new distribution plant has been included in the rate base for the test period.

It appears to the Commission that the sales volume utilized in this Decision may not be relevant for fiscal 1984. Accordingly, Columbia is directed to provide the Commission with a fiscal 1984 forecast showing the anticipated rate of return on common equity based upon 1984 forecast loads. This is to be provided as soon as Columbia has a clear indication of expected loads for fiscal 1984.

(b) Strike Adjustment

The Applicant normalizes its forecast of industrial sales by adjusting the "strike-free" forecast by the five year industrial strike average.

This is the first occasion that Columbia has put forward such a proposal, although its parent Inland has had a strike allowance in its rates for some time.

The Commission approves the proposal as put forward by the Applicant.

(c) System Losses

Columbia's application includes a provision for system losses based upon 1.2% of sales volume. Compared to Inland's system this is a relatively high loss factor. The Commission will accept the current provision for the purpose of this Decision, however, the Applicant is directed to provide further justification for the use of such a number.

(d) Operation and Maintenance Expenses

Columbia requests recovery of \$1,883,330 for operating and maintenance expenses. The amount requested includes provision for an increase of \$285,000 or 17.8% from fiscal 1982 normalized costs. On a cost per customer basis, the requested increase amounts to 9% per customer.

The Commission has carefully assessed the allowance for operation and maintenance costs and has based its findings upon what is a reasonable level of cost to maintain safe and efficient service. It appears to the Commission that increased costs of operation are not linked to increased sales volume but to increased customers and inflationary impacts. It finds the applied for increase to be excessive. In a situation where a utility's sales volume declines it must make every effort to control costs. With these considerations in mind, the Commission will limit the allowance for operation and maintenance costs for fiscal 1983 to 5% per customer. This will establish an allowance of \$145.90 per customer as set out on Appendix A, which figure will provide the base for the determination of a reasonable level of cost for future periods.

(e) Accounting for Income Taxes

This matter is addressed in the companion decision on Inland Natural Gas Co. Ltd. dated May 25, 1983.

The Commission wishes to hear further evidence with respect to the potential timing of the cross-over point for Inland and Columbia and the measurement of that future liability in discounted terms. The hearing of the further evidence will be done concurrently with that of Inland.

3. Rate of Return

The Applicant requests a rate of return on common equity of 18% based upon a forecast equity component of 37%.

Mr. Peter T. Brown of Dominion Securities Ames Limited appeared on behalf of the Applicant and his evidence centred on an analysis of financial markets based on five year historical trends.

The Commission has found no conclusive evidence in support of the Applicant's request for an 18% return on common equity. After considering the financial and business risks of the utility, the Commission finds that an opportunity to earn a rate of return of 15.75% on common equity is fair and reasonable for the fiscal 1983 test period.

4. Interest Deferral Account

The Commission accepts the Applicant's request to create a deferred interest account to absorb fluctuations in interest rates. Short-term interest expense above or below 13.6%, from July 1, 1982, is to be recorded in a deferral account for as long as a 13.6% cost of unfunded debt forms a component of approved rates. The balance in the account is to be held for future disposition by the Commission.

5. Hearing Costs

The Commission has disallowed costs of \$11,151 for financial testimony. The balance of \$80,590 is to be amortized over two years with the unamortized balance included in rate base.

III. RATES AND TARIFFS

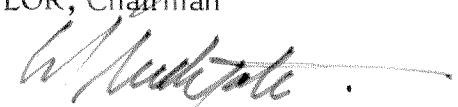
The Commission hereby confirms as permanent, the interim rates currently in effect under Order No. G-18-82, Order No. G-51-82, and Order No. G-74-82.

For the reasons given herein, the Commission denies the application for additional rate relief but will allow Columbia the opportunity to earn a rate of return of 15.75% on common equity.

DATED at the City of Vancouver, in the Province of British Columbia,
this 12th day of July, 1983.



M. TAYLOR, Chairman



R.J. LUDGATE, Commissioner



BRITISH COLUMBIA UTILITIES COMMISSION	
ORDER NUMBER	G-48-83

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 Applications by
Columbia Natural Gas Limited

BEFORE: M. Taylor,)
Chairman; and) July 12, 1983
R.J. Ludgate,)
Commissioner)

O R D E R

WHEREAS Columbia Natural Gas Limited ("Columbia")
applied June 21, 1982 pursuant to Section 67(2) and Section 106
of the Act for interim and permanent rate relief and requested
inter alia, the following:

- (a) confirmation as firm rates the interim rates ,
authorized February 1, 1982 by Commission Order
No. G-18-82,
- (b) amendment of the interim rates authorized by
Commission Order No. G-51-82 to allow for a rate
of return of 18% on common equity,
- (c) provision for the creation of a deferred interest
account to absorb fluctuations in the interest
rate of unfunded debt from that assumed in the
Application until the definitive form of
financing has been resolved; and

WHEREAS the Commission heard the Applications in
public hearing and has considered the evidence adduced thereon,
all as set forth in the Decision issued concurrently with this
Order.

.../2

**BRITISH COLUMBIA
UTILITIES COMMISSION**

ORDER

NUMBER G-48-83

2

NOW THEREFORE the Commission hereby orders

Columbia Natural Gas Limited as follows:

1. The interim rate increases authorized by Commission Orders No. G-18-82, G-51-82 and G-74-82 are confirmed as firm rates.
2. Columbia's Application for increased rates to allow an 18% rate of return on common equity is denied and, in accordance with the Commission Decision Columbia is allowed the opportunity to earn a rate of return of 15.75% on common equity.
3. The Rate Base for the Test Year ending June 30, 1983 is approximately \$9,829,536.
4. The Total Revenue Requirement for the Test Year ending June 30, 1983 is approximately \$33,190,321.
5. Columbia is directed to establish a Deferred Interest Account for the purpose of recording fluctuations in short-term interest expense above or below 13.6% from July 1, 1982 for such period of time as a 13.6% cost of unfunded debt forms a component of approved rates.
6. The matter of Accounting for Income Taxes will be concluded at a forthcoming public hearing to be held in the Commission Hearing Room on a date to be determined. Accordingly, Columbia is directed to file evidence in accordance with the matters referred to in the Decision on or before August 31, 1983.

DATED at the City of Vancouver, in the Province
of British Columbia, this 12th day of July, 1983.

BY ORDER



Chairman

SCHEDULE ICOLUMBIA NATURAL GAS LIMITEDUTILITY RATE BASE FOR THE YEAR ENDING
JUNE 30, 1983

<u>Particulars</u>	<u>Per Application (Exh. 25)</u>	<u>Commission Adjustment</u>	<u>Adjusted Balance</u>
Gas plant in service	\$13,777,952	-	\$13,777,952
Additions to gas plant in service	705,960	-	705,960
Less: Customer advances on construction	(88,000)	-	(88,000)
<u>Gross Plant</u>	14,395,912	-	14,395,912
Less: Contributions in aid of construction	(272,975)	-	(272,975)
Less: Distribution System Expansion Grant	(79,915)	-	(79,915)
	14,043,022	-	14,043,022
Accumulated depreciation	(2,832,645)	-	(2,832,645)
Adjustment to accumulated depreciation	(153,496)	-	(153,496)
<u>Net Plant</u>	11,056,881	-	11,056,881
Deferred Income Tax	(1,399,461)	-	(1,399,461)
Deferred Hearing Cost	-	(a) \$ 20,148	20,148
Working Capital Allowance			
Cash working capital	(217,728)	-	(217,728)*
Other working capital items	369,696	-	369,696
<u>Utility Rate Base</u>	<u>\$ 9,809,388</u>	<u>\$ 20,148</u>	<u>\$ 9,829,536</u>

* No adjustment has been made to account for a minor change in cash working capital as a result of this decision.

NOTES TO SCHEDULE I

(a) Deferred Hearing Cost

Beginning of period

-

End of period

\$40,295

Mid-year

\$20,148

SCHEDULE IICOLUMBIA NATURAL GAS LIMITEDUTILITY INCOME AND EARNED RETURN
FOR THE YEAR ENDING JUNE 30, 1983

<u>Particulars</u>	<u>Per Application</u> <u>(Exh. 25)</u>	<u>Commission</u> <u>Adjustment</u>	<u>Adjusted</u> <u>Balance</u>
Sales volume (Mcf)	<u>8,911,011</u>		<u>8,911,011</u>
UTILITY REVENUE			
Gas Sales - existing rates	\$ 32,401,079	-	\$ 32,401,079
- interim rates (1)	776,516	-	776,516
- deficiency	<u>242,165</u>	(a) \$ (229,439)	<u>12,726</u>
Total	<u>33,419,760</u>	<u>(229,439)</u>	<u>33,190,321</u>
<u>EXPENSES</u>			
Purchase of gas	28,302,869	-	28,302,869
Operation & Maintenance	1,883,330	(b) (70,377)	1,812,953
Hearing Costs	-	(c) 40,295	40,295
Property, franchise and sundry taxes (2)	914,107	-	914,107
Depreciation	314,392	-	314,392
Other operating revenue	<u>(96,520)</u>	<u>-</u>	<u>(96,520)</u>
	<u>31,318,178</u>	<u>(30,082)</u>	<u>31,288,096</u>
Utility revenue before taxes	<u>2,101,582</u>	<u>(199,357)</u>	<u>1,902,225</u>
Income taxes - payable	528,605	(115,096)	413,509
- deferred	<u>167,626</u>	<u>-</u>	<u>167,626</u>
Total	<u>696,231</u>	<u>(115,096)</u>	<u>581,135</u>
EARNED RETURN	<u>\$ 1,405,351</u>	<u>\$ (84,261)</u>	<u>\$ 1,321,090</u>
UTILITY RATE BASE	<u>\$ 9,809,388</u>	<u>\$ 20,148</u>	<u>\$ 9,829,536</u>
RATE OF RETURN ON UTILITY RATE BASE	<u>14.33%</u>		<u>13.44%</u>

(1) Interim includes property tax pass-through and interim rate increase
(Vol 1, Tab 17, Page 1)

(2) Adjustments to reduce franchise fees are immaterial.

NOTES TO SCHEDULE II

(a) Reduction to deficiency reflecting Commission findings per this Decision.

(b) Operation and Maintenance Expenses
(Exh. 9, Tab 3, Sch. 1 and Tab 5, Pg. 15.00)

1982 Normalized O & M cost. \$1,598,322

of customers = 11,503

Average cost per customer 138.95

1983 # of customers = 12,426.

Allowed O & M expenses

$\$138.95 \times 1.05 = \145.9 multiplied by
1983 # of customers = \$1,812,953

O & M costs per Application (1,883,330)

Adjustment required \$ (70,377)

(c) Hearing Costs

Costs of \$80,590 to be
amortized over two years \$ 40,295

SCHEDULE IIICOLUMBIA NATURAL GAS LIMITEDCALCULATION OF INCOME TAXES ON UTILITY
INCOME FOR THE YEAR ENDING JUNE 30, 1983

<u>Particulars</u>	<u>Per Application (Exh. 25)</u>	<u>Commission Adjustment</u>	<u>Adjusted Balance</u>
CALCULATION OF INCOME TAXES			
Earned Return	\$1,405,351	\$ (84,261)	\$1,321,090
Deduct - interest on debt	(792,695)	(a) (14,576)	(807,271)
- non-tax deductible	(3,992)	-	(3,992)
Accounting income after tax	608,664	(98,837)	509,827
Deduct-Timing difference adj	(322,357)	-	(b) (322,357)
Taxable Income after Tax	<u>\$ 286,307</u>	<u>(98,837)</u>	<u>\$ 187,470</u>
Income tax rate (current tax)	53.8%	-	53.8%
Income tax rate (deferred tax)	52.0%		52.0%
Taxable income before income tax	\$ 619,712	\$(213,933)	\$ 405,779
Add amount required to provide for deferred tax	<u>362,826</u>	<u>-</u>	<u>362,826</u>
Taxable Income	<u>\$ 982,538</u>	<u>\$(213,933)</u>	<u>\$ 768,605</u>
Income tax - current	\$ 528,605	\$(115,096)	\$ 413,509
- deferred	<u>167,626</u>	<u>-</u>	<u>167,626</u>
Total	<u>\$ 696,231</u>	<u>\$(115,096)</u>	<u>\$ 581,135</u>

(a) Return on debt portion of rate base :

$$66.77\% \times 9,829,536 \times 12.30\% = \underline{\$807,271}$$

(b) No adjustment has been made to account for insignificant changes as a result of this decision.

SCHEDULE IVCOLUMBIA NATURAL GAS LIMITEDRETURN ON CAPITAL FOR THE YEAR ENDING JUNE 30, 1983

	Per Application (Exh. 25)	Commission Adjustment	Adjusted Balance	% of Capital Structure	Average Embedded Cost	% Cost Component
Unfunded debt	\$4,285,415	(a) \$502,173	\$4,787,588	47.85	13.60%	6.51
Long-term debt	1,893,250	-	<u>1,893,250</u>	<u>18.92</u>	<u>9.00%</u>	1.70
			6,680,838	66.77	12.30%	
Common equity	<u>3,630,723</u>	(b) <u>(306,331)</u>	<u>3,324,392</u>	<u>33.23</u>	<u>15.75%</u>	<u>5.23</u>
Total	<u>\$9,809,388</u>	<u>\$195,842</u>	<u>\$10,005,230</u>	<u>100.00%</u>		<u>13.44%</u>

(a) Adjustment to reflect forecast unfunded debt per Exh. 25, Tab 14, Page 5.

(b) Adjustment to reflect past practice where current earnings are paid out as dividends.

APPENDIX ACOLUMBIA NATURAL GAS LIMITEDOPERATION AND MAINTENANCE COST PER CUSTOMER AND PER MCF SOLD

	<u>1981</u> <u>Actual</u>	<u>1982</u> <u>Normalized</u>	<u>1983</u> <u>Normalized</u>	<u>1983</u> <u>Decision</u>
O & M costs	\$1,338,376 (1)	\$1,598,322 (2)	\$1,883,330 (3)	\$1,812,953
Average number of customers (Exh. 9, Tab 3, Sch. 1)	10,690	11,503	12,426	12,426
Sales Volume (Mcf)	8,491,835 (1)	9,208,118 (2)	8,911,011 (3)	8,911,011
O & M cost per customer	\$ 125.20	\$ 138.95	\$ 151.56	\$ 145.90
% change from previous year	-	11.0%	9.1%	5.0%
O & M cost per Mcf sold	15.76¢	17.36¢	21.13¢	20.35¢
% change from previous year	-	10.2%	21.7%	17.2%

Note:

(1) Exhibit 19

(2) Exhibit 9, Tab 5, Page 15.00

(3) Exhibit 25

LIST OF EXHIBITS

	<u>Exhibit No.</u>
Commission Order No. G-51-82, dated July 13, 1982	1
Affidavit - Proof of publication of Notice of Hearing	2
Columbia Natural Gas Limited Application to Amend its Schedule of Rates - Volume 1A	3
Columbia Natural Gas Limited Application - Volume 1	4
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July 1, 1982 - June 30, 1983 Budget Forecast	14
Columbia Natural Gas Limited - Operating and Maintenance Expense, Actual 1982 - Forecast 1983	15

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Columbia Natural Gas Limited - Corrections to Transcripts - October 28 and 29, 1982	27
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Direct Testimony of Hugh W. Johnson	B
Bond Ratings - Trans Canada Pipelines Ltd.	C

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National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act (Tolls Application)	D
In the Matter of an Application by Inland Natural Gas Co. Ltd. to Amend its Schedule of Rates - Volume II - Testimony of Inland Witness	E
In the Matter of an Application by Inland Natural Gas Co. Ltd. to Amend its Schedule of Rates - Volume 12 - Report by Datametrics Ltd.	F
Resume of Witness G.C. Watkins	G
Studies in Natural Resource Management by G.D. Quirin and W.R. Waters	H
Canadian Petroleum Association - Direct Testimony of Hugh W. Johnson	I
Basis of Computing the Provision for Income Taxes from C.I.C.A.	J
Copies of Various Prospectuses	K
Copy of Inland Natural Gas Co. Ltd. Prospectus	L
Cost of Gas in 1982 Dollars - With Estimated Cost Each Year to the Year 2010	M
Case 1A Tariffs (Dollars per Gigajoule)	N
Case 1, 2, 3, 4, 5, 6, 7, 8	O