

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

and

IN THE MATTER OF
Applications for Rate Relief
by Inland Natural Gas Co. Ltd.

DECISION

November 25, 1983

Before:

J.D.V. Newlands, Deputy Chairman
and Chairman of the Division;
D.B. Kilpatrick, Commissioner; and
R.J. Ludgate, Commissioner

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ORDER NO. G-81-83

SCHEDULES	I	Utility Rate Base
	II	Utility Income and Earned Return
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APPEARANCES

C.B. JOHNSON
P.D. LLOYD

Inland Natural Gas Co. Ltd.

T.D. TUTTI
R.D. DEANE

Cominco Ltd.

R.B. WALLACE
J. HAYTHORNE

Council of Forest Industries
B.C. Forest Products Ltd.
B.C. Timber Ltd.
Caribou Pulp and Paper Company Ltd.
Northwood Pulp and Timber Limited
Prince George Pulp and Paper Ltd.
Weyerhaeuser Canada Ltd.

K.E. GUSTAFSON
R.G. KUHN

Consumers Glass Company Limited
Quesnel River Pulp Company

H. ALMOND

Residential Customer

J. PELRINE

Commission Counsel

S.S. WONG

Commission Staff

W.R. HARPER

Hearing Officer

W.G. AUDIOTRON ENTERPRISES LTD. Court Reporters

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I. THE COMPANY

Inland Natural Gas Co. Ltd. ("Inland", the "Applicant" or the "Company") is a regulated utility under the Utilities Commission Act. The Company's primary business is the transmission and distribution of natural gas to 54 communities in British Columbia in a service area stretching from the Peace River area in the north, through the Cariboo and Okanagan to the West Kootenays. The Company serves approximately 113,000 accounts.

The Company has some 375 employees and its head office is in Vancouver.

Wholly-owned subsidiaries of the Company include Columbia Natural Gas Limited, Grande Prairie Transmission Co. Ltd., Peace River Transmission Company Limited, St. John Gas and Oil Co. Ltd. (N.P.L.), Inland Development Co. Ltd., Inland Transmission Co. Ltd. and Inland Development (1957) Co. Ltd. In addition, in 1983 the Company acquired approximately 67% of Trans Mountain Pipe Line Company Ltd. ("Trans Mountain").

II. BACKGROUND

This Decision deals with the revenue requirement of Inland in the test year ending June 30, 1984.

The last Rate Decisions of the British Columbia Utilities Commission ("the Commission") with respect to Inland were dated May 25 and June 21, 1983 dealing with a test period ending June 30, 1983.

By Application dated June 27, 1983 Inland requested and was granted interim refundable relief of approximately \$2.5 million or 1.56% effective July 1, 1983 on the condition that a full application would be filed no later than September 15, to be heard on October 18, 1983 pursuant to Order No. G-46-83.

On September 15, Inland filed the additional material in support of the interim relief and sought additional permanent relief of 1.96%.

Both of the above Applications, as well as Inland's Application for revised terms and conditions for Schedule 11 customers and the matter of the Applicant's Mains Extension Policy were discussed at the hearing and are dealt with in this Decision.

As directed by Order No. G-46-83, the Commission heard evidence in Kelowna, B.C. for seven days commencing on October 18, 1983 with argument heard in Vancouver, B.C. on October 31, and November 1, respectively.

III. TEST PERIOD

The Applications for both interim and permanent relief are based on the forecast year ending June 30, 1984.

The provision for interim relief subject to refund is incorporated in the Utilities Commission Act to provide an applicant the opportunity to recover its costs while at the same time ensuring the rates to customers are just and reasonable. The Commission is concerned that in the last two Applications by Inland, the Applicant has filed for interim relief and then, within a matter of months, has requested additional relief.

The Commission appreciates that current economic circumstances are difficult, and further aggravated by changing gas prices, but nevertheless believes that in the interest of both its customers and shareholders the Applicant, through better planning, should attempt to make only one application seeking the appropriate revenue requirement. This would reduce Inland's internal costs of preparation as well as a general reduction in the hearing costs for all participants, due to the reduction in the amount of material to be considered.

To assist the Applicant and its customers to achieve such economies, the Commission has incorporated an allowance in Inland's cost of service for the development of a long-range corporate planning process appropriate to its utility operations.

IV. THE ISSUES

1. Rate Base

The Commission has reviewed the forecast mid-year rate base put forward by the Applicant and, with the exception of those adjustments set forth in Schedule I attached, has accepted that forecast for the purpose of determining just and reasonable rates for the year ending June 30, 1984.

With regard to the question of deferred interest, the purpose of this special account remains the insulation of both the customers and shareholders from unpredictable swings in interest rates. The Commission accepts the five-year amortization period as proposed by the Applicant and concludes that deferral of interest should continue until such time as greater stability is achieved in the financial markets.

2. Cost of Service Excluding Return

Before dealing with specific items included in the Applicant's cost of service, the Commission emphasizes in the strongest possible terms the absolute necessity for continuing restraint by the Applicant, if all of its customers are to assist and to participate in the economic recovery of the province.

Specifically, the Commission is concerned with the escalation of salaries and wages, whether caused by step increases or general "across the board" increases as the result is the same, with these costs then locked-in for the foreseeable future.

The fair and equitable treatment of employees of a public utility must take into account the customers' ability to pay. Although in this instance the Commission has not made any downward adjustment in the Applicant's estimated costs, the Commission concludes that if these costs can be reduced, in the short-run the shareholders will be the immediate beneficiary, while in the medium to longer term both the customers and shareholders will benefit.

Furthermore, although no adjustments have been made, the Commission concludes that every effort must be made by the Applicant to reduce the cost of goods purchased from its suppliers, without reducing the quality thereof. In this regard, the Commission recognizes the Applicant's achievement of significant savings by the use of plastic pipe where appropriate and expects the Applicant to report further economies in the future.

3. Strike Adjustment Clause

For several years the Applicant has included in its cost of service an allowance representing sales lost during industrial disputes. The allowance is based upon the average of such losses over the previous 10 years. Consumers Glass Company Limited and Quesnel River Pulp Company through counsel, suggested that the method used by the Applicant was inappropriate and that a better solution would be the establishment of a deferred account which would accumulate these losses on an annual basis.

The Commission has considered this recommendation and believes that it is inappropriate by reason of the inevitable instability in rates which would result from such a solution, with rates rising or falling in any given year in response to the strike experience in the preceeding year. The Commission concludes, moreover, that a 10-year average may not reflect the most appropriate timespan and hence directs Inland to review this matter to determine whether 10 years or some shorter period be more representative of prospective strike activity.

This is a difficult matter to assess. The 10-year period should continue to be used until the Commission has had an opportunity to consider the information gathered by the review and directed a change.

4. Marketing Department Expenses

After careful consideration of the evidence the Commission has concluded that Inland's planned expenditures for marketing and sales promotion are necessary for the effective operation of the utility and are in the public interest.

While it is a truism that all customers benefit by attaching and maintaining customers, and that to achieve these objectives, funds of necessity must be expended, the Commission concludes that the Applicant's evidence as to the benefits achieved and projected from these expenditures was inadequate. The evidence does not disclose that either past or proposed expenditure levels are excessive, particularly in terms of the prevailing and prospective market conditions facing the Applicant. The Commission therefore concludes that to require the Applicant to reduce such expenditures in the face of declining sales and threatened markets when in the absence of evidence to the contrary the last expenses to be cut should be marketing expenses, is simply not justified.

5. Unaccounted For Gas

In its Application Inland has used a 9-year average for developing an allowance of .6% of total sales volume to represent the unaccounted for gas. As suggested by an intervenor, more recent experience indicates a factor of .22% might be more appropriate. The Commission is reluctant to direct a change on the basis of what might prove to be a short-term phenomenon.

The Applicant is therefore instructed to review this matter to determine whether a shorter period would be more representative of actual experience. The results of such a review will be considered at the next hearing.

6. Management Fee Payable to the President of Trans Mountain

The Applicant has incorporated a cost of \$30,000 in fiscal 1984 with respect to services to Inland by the President of Trans Mountain. Under cross-examination the Applicant testified that 90% of that executive's time was spent on Trans Mountain business, 10% of his time on Inland matters.

The Commission recognizes that, due to the long association of this executive with Inland in a senior executive capacity, his knowledge and expertise is of assistance especially during a transitional period.

The Commission, however, concludes that such advice and assistance can now be provided in his capacity as a director of Inland. The amount of \$30,000 has accordingly been deleted from Inland's cost of service.

7. Schedule II Rates

In the previous Inland Decision the Commission noted on Page 18 that, in response to concerns by industrial intervenors, the Applicant undertook to retain an independent expert on rate design to review these matters and report thereon. Mr. Allan J. Schultz was retained and his report and recommendations were filed as Exhibit 7.

As a result of the report and subsequent negotiations between the Applicant and its Schedule II customers, many of the outstanding matters have been resolved. The Commission accordingly accepts the proposed tariff changes as approved by the industrial customers. The proposed tariff changes will create a revenue short-fall from industrial sales of approximately \$589,000. Inland proposes to recover this amount from Schedule I (residential customers).

The Commission has considered this matter and concludes that it is equitable at this time to recover the short-fall from Schedule I customers.

In addition to the proposed Schedule II terms and conditions the Applicant proposes that Consumers Glass Company Limited, with the acceptance of the other industrials, be granted priority curtailment, due to the unique circumstances of its operations.

In cross-examination Mr. Schultz was asked if such preferential treatment required the creation of a separate rate class. He advised that in his opinion it did and that the appropriate rate for this class of service would be approximately 9/10¢ per gigajoule, or for Consumers Glass, about \$6,000 per year greater than that prevailing for the other Schedule II customers.

The Commission has considered whether a separate tariff should be established to avoid potential future problems and has concluded that, although Consumers Glass will receive preferential treatment with respect to curtailment reflecting an estimated \$6,000 annual dollar value, this does not constitute undue discrimination. Accordingly, the Commission will accept for filing the Schedule II terms and conditions, inclusive of the supplemental agreement reached between Consumers Glass and the Applicant.

One longstanding issue which remains unresolved between the Applicant and its industrial customers is the matter of nomination lead time and the availability of additional gas from Westcoast Transmission Company Limited ("Westcoast") which gas might negate the need for curtailment.

On the basis of the evidence, it does not appear that the Applicant has pursued this matter as diligently as it might have and accordingly the Applicant should meet with Westcoast as soon as possible, seeking to negotiate a reduction in nomination lead times and advise the Commission and the industrial intervenors on the results of these discussions.

In addition, the Applicant should discuss with Westcoast the availability of additional gas to reduce curtailments even on a temporary basis, and whether lower priced pipeline overrun gas might be available. Such gas, if available, would enhance the Applicant's industrial sales and improve the competitive position of the Applicant's industrial customers. The Commission concludes that such gas sales would be incremental rather than displacing existing Schedule 11 or Schedule 12 sales.

8. Mains Extension Policy

The Applicant testified that it was the Company's policy to provide broad service to its customers and this policy had been followed by the Applicant since its inception in the late 1950's. The Applicant's position is that this is consistent with both Provincial and Federal Government policy.

In implementing its policy of broad service the Applicant applies a Mains Extension test requiring a customer contribution if six times the estimated net annual revenue to be received from the customer, is less than the cost of constructing the extension. This matter was also addressed on page 17 of the Commission's May 25, 1983 Decision regarding Inland.

The Commission concurs with the Applicant's view that as a public utility it has an obligation to provide broad service and accordingly supports the Applicant in its endeavours to attract new customers.

The Commission concludes that in most circumstances this operates to the benefit of all, and is to be commended. However, on the basis of the evidence in Exhibit 28 it would appear that under existing rates the Applicant is not only failing to achieve a return from new residential customers but is in fact (excluding return), losing an average of approximately \$24 per year on each existing residential customer. To a large extent this may be attributable to the significant decline in the use per residential customer over the past several years. If this trend continues into the future the revenue loss will increase, with a consequent inevitable increase for other classes of customers and a reduction in the competitive position of both the Applicant and its customers.

While the Commission acknowledges that Exhibit 28 cannot be considered a fully developed study, the Commission concludes that it is indicative of an existing problem which may prove to be more serious upon further study. The Commission directs that the Applicant review this matter in the interest of both its customers and its shareholders. The Commission concludes it to be premature to direct the Applicant to adjust its rates or change its extension policy. However, consistent with continuing to provide broad service this problem must be reviewed prior to the next application, and a solution proposed by the Applicant.

9. Trans Mountain Pipe Line Company Ltd. -
Takeover Costs

The Applicant in this proceeding is seeking to recover approximately \$1 million (after tax) of the funds expended in acquiring 67% of Trans Mountain. This matter has a complex background and must be considered in light of the Decision of this Commission in June 1982.

"On February 26, 1982 TMA, a B.C. company jointly owned by Trans Mountain Pipe Line Company Ltd. and two Vancouver businessmen, F.J. Anderson and C.B. Macdonald, made an offer which resulted in the acquisition of 93.5% of the outstanding common shares of Inland. An application by TMA to register the transfer of the majority of the shares on the books of Inland was denied by the Commission after a public hearing, primarily because the Commission concluded that it was "...in the public interest that the shares of a public utility be widely held...".⁽¹⁾

"On November 16, 1982, the Commission issued Order No. G-78-82 approving an application by Inland to issue authorized shares of the Company in exchange for issued and outstanding shares of Trans Mountain Pipe Line Company Ltd. The order contained specific provisions to ensure that, as a result of the share exchange, there should be no adverse impact on the public interest, the interest of the consumers or restrictions on the authority of the Commission under the Act."⁽²⁾

In paragraph 6 of the above-mentioned Order the Commission stated as follows:

"That nothing in this Order is to be construed or interpreted as approval of an increase in the rates and tolls charged by Inland to its customers to recover any costs, present or future, incidental to or arising out of the issue of shares pursuant to the offer or as restricting the Commission in the exercise of its power under the Act".

In this Application for rate relief Inland has included in the rate base its after-tax expenses incurred in the takeover of Trans Mountain, amounting to approximately \$1 million, and is seeking to amortize this amount to the cost of service over a five year period commencing in the current fiscal year.

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- (1) In the matter of an Application by TMA Western Resources Ltd. -- Decision June 30, 1982.
- (2) In the matter of an Application by Inland Natural Gas Co. Ltd. Page 3 -- Decision May 25, 1983.

The Applicant's argument for the inclusion of these expenses in both rate base and cost of service is that they were incurred in achieving the objective of the Commission as set forth in its Decision of June 30, 1982 with regard to TMA Western Resources Ltd; namely, the attainment of a broader public ownership of the utility.

The industrial intervenors unanimously argued that Inland's takeover costs should be disallowed because the major beneficiaries were the shareholders, the events were nothing more than corporate "in-fighting", and because the costs incurred in what was acknowledged to be a non-utility investment are neither used nor useful in providing service to Inland's customers and are contrary to precedent.

If the Applicant had initiated this non-utility investment, the arguments of the intervenors would have prevailed unless a direct benefit to the customers of the Applicant could be demonstrated. In the absence of such benefit, the Commission would have had no alternative but to disallow these costs in total. The Commission, however, concludes that the circumstances in this case are unique. For a variety of reasons, the management of Inland found itself in an impossible position with the utility in conflict with the public interest as interpreted by the Commission. In the final analysis, the Applicant achieved the objective of broader public ownership as set forth in the TMA Western Resources Ltd. Decision of June 30, 1982.

While the Commission recognizes that the Decision of June 30, 1982 was probably the major influence on Inland's subsequent actions, it is self-evident that, in any takeover battle, other personal and corporate objectives are inevitably involved. The hearing, however, produced no evidence with which to deal with such real but undefined objectives.

The Commission has considered the arguments of all parties and concludes that, while there is merit on both sides, the evidence is not so clear as to justify adoption of either the Applicant's proposal or that of the intervenors. The Commission therefore concludes that it is in the public interest that the shareholders and the customers share the expense and accordingly has deducted approximately \$1 million dollars from the rate base. The Commission will, however, permit the shareholders to recover the after-tax expense by amortizing it to the cost of service over a five year period.

10. Cost of Capital

The Applicant has requested that the Commission authorize a return on equity of 16%. This return is at the low end of the range of 16 to 16.5% recommended by Dr. R. Evans, an expert witness called by the Applicant to testify in the matter. The return sought would increase the allowed return of 15.75% within the range of 15.5 to 16% authorized in the May 1983 Decision of the Commission.

Mr. Kadlec, President and Chief Executive Officer of Inland, testified that the Company had adopted the 16% rate in the interest of restraint, recognizing that fairness dictates that both shareholders and customers should share in that restraint.

In his evidence, which he acknowledged involved a heavy element of judgement, Dr. Evans relied upon three recognized investment tests comprising the comparable earnings test, the discounted cash flow method, and the equity premium test, and gave the greatest weight to the comparable earnings test. In his analysis Dr. Evans specifically excluded any risk associated with the Trans Mountain acquisition, which he concluded was neutral at this time in any event.

The industrial intervenors opposed the return sought by the Applicant as excessive, largely on the basis of what they found to be flaws in Dr. Evans' comparable earnings test methodology. Specifically, the Council of Forest Industries (COFI) argued that the choice of comparable companies was biased in favour of the Applicant and unsupported as to evidence of comparability to the Applicant, and that the years selected for the comparison were inappropriate.

COFI concluded that Dr. Evans' approach was designed to ensure that the Applicant's earnings would achieve the best of the good times while avoiding the worst of the bad times. COFI, in reviewing the changes in the economy and the Applicant's circumstances since the May 1983 Decision, concluded that little had changed except that the downward trend in rates of both interest and inflation had continued. In support of an argument for lower rates of return COFI cited recent decisions by other regulatory agencies where returns in the range of 13.5 to 15% on equity have been allowed to various gas, electric and telephone utilities.

Consumers Glass adopted all of the positions taken by COFI and Cominco in final argument and in addition, suggested that some of the statistics cited by Dr. Evans in support of his recommendations on appropriate rate of return, such as Worldscan, were remote and inconclusive with respect to the Applicant's circumstances.

Cominco, opposing an increase in Inland's allowed rate of return argued that "if Inland were to adopt policies with respect to its discretionary expenditures in line with those that other non-regulated industries have been forced to adopt Inland could, with improvements in the economy, expect an increase in its rate of return that would not be dependent upon a mere increase in cost of service revenues, but rather as a result of increased volumes and efficiencies" (ref. Transcript Vol. 8, Page 1495).

The Commission understands the desire of Inland's customers for lower rates of return and thereby lower tariffs, but must balance this against the needs of the utility for an adequate rate of return on equity if it is to compete effectively in the capital markets. The Commission recognizes that both inflation and interest rates have declined since the last Inland decision and notes that the real rate of return on long-term bonds is currently at an historical high. The Commission concludes that the current high return, in real terms, indicates that investors are not yet convinced that inflation will not resume an upward trend, and that the high real rate of interest on long-term bonds is putting upward pressure on equity returns, which must compete with them for investment capital. If, however, restraint programs coupled with increasing productivity are successful, the real rates of return on both debt and equity required by investors at large should decline.

Although current trends in rates of return are downward the Commission concludes that it is premature to set a rate of return for the Applicant on the presumption that these trends will continue. In the present climate of uncertainty and in the absence of any evidence that the Applicant's share value or ability to finance have been impaired by its presently allowed rate of return on equity, the Commission finds no compelling reason to adjust the Applicant's allowed rate of return either up or down. Accordingly, the Commission concludes that a return of 15.75% is the appropriate return on equity for purposes of determining revenue requirements. This is within a range of 15.25 to 16%, with the drop in the lower end of the range prescribed in the last Decision from 15.5 to 15.25% being justified by current and prospective trends.

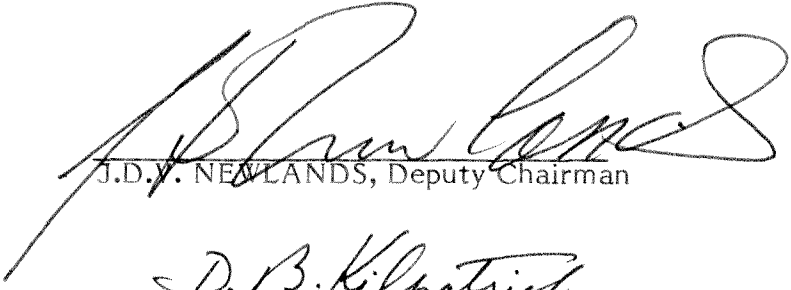
The Commission recognizes that, in the absence of a strong market recovery, the Applicant's late October filing for additional interim relief will make it difficult to achieve the lower end of the range.

II. Rates and Tariffs

The Commission confirms the initial interim increase in rates authorized by Order No. G-46-83; sets aside the second interim increase in rates specified in Clause I of Order No. G-77-83 except for the shift of \$589,000 from Rate Schedule II to Rate Schedule I which remains in place; and will accept for filing revised Tariff Rate Schedules which will permit the Applicant to generate the revenue requirement as set forth in this Decision. The new rates will become effective, upon timely filing, with consumption on and after December 1, 1983.

Refunds to customers will be applicable for consumption from November 1, 1983 and an appropriate credit therefore will appear on subsequent customer billing.


DATED at the City of Vancouver in the Province of British Columbia, this 25th day of November, 1983.



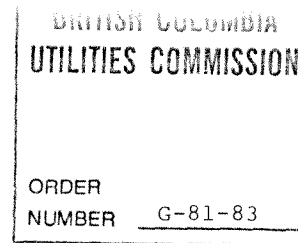
J.D.V. NEWLANDS, Deputy Chairman



D.B. KILPATRICK, Commissioner



R.J. LUDGATE, Commissioner



PROVINCE OF BRITISH COLUMBIA

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

and

IN THE MATTER OF Applications by
Inland Natural Gas Co. Ltd.

BEFORE: J.D.V. Newlands,)
Deputy Chairman;)
D.B. Kilpatrick,) November 25, 1983
Commissioner; and)
R.J. Ludgate,)
Commissioner)

O R D E R

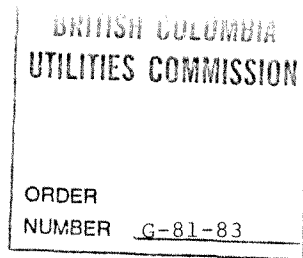
WHEREAS a public hearing pertaining to Inland
Natural Gas Co. Ltd. ("Inland") commenced before this Commis-
sion at Kelowna, B.C. on Tuesday, October 18, 1983 to hear,
inter alia, the following matters:

- (a) An Application dated June 27, 1983 for interim
increases effective with consumption of natural
gas on and after July 1, 1983 to its filed
Tariff Rate Schedules.
- (b) An Application dated July 15, 1983 seeking to
amend its Rate Schedule 1 and various provisions
in Rate Schedule 11.
- (c) An Application dated September 15, 1983 for
permanent increases to its filed Tariff Rate
Schedules; and

WHEREAS the Commission issued Order No. G-46-83
dated July 4, 1983 authorizing an interim increase in rates of
approximately 1.56% effective July 1, 1983 with the interim
increase to be subject to refund with interest; and

WHEREAS at the commencement of the hearing Inland
applied for further interim rate relief to be effective for gas
consumed on and after November 1, 1983, in accordance with
Exhibit 2A; and

.../2



WHEREAS the Commission issued Order No. G-77-83 dated November 4, 1983 authorizing a second interim increase in rates of approximately 1.90% effective November 1, 1983 with the interim increase to be subject to refund with interest; and

WHEREAS the Commission has considered the Application and supporting material and the evidence adduced at the public hearing.

NOW THEREFORE the Commission hereby orders Inland Natural Gas Co. Ltd. as follows:

1. The Commission confirms the initial interim increase in rates authorized by Order No. G-46-83; sets aside the second interim increase in rates specified in clause 1 of Order No. G-77-83 except for the shift of \$589,000. from Rate Schedule 11 to Rate Schedule 1 which remains in place; and will accept for filing revised Tariff Rate Schedules which will permit the Applicant to generate the revenue requirement as set forth in the Decision. The new rates will become effective, upon timely filing, with consumption on and after December 1, 1983.
2. Inland shall comply with all of the directions of the Commission to Inland contained in the Decision issued concurrently with this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 25th day of November, 1983.

BY ORDER


Deputy Chairman

SCHEDULE IINLAND NATURAL GAS CO. LTD.Utility Rate Base for the Year Ending June 30, 1984

	Per Application (Exhibit 2, Tab 2 Page 1)	Adjustments	Adjusted Balance
Gas Plant in Service	\$169,921,363		\$169,921,363
Additions to gas plant in service	5,418,110	(a) \$(22,722)	5,395,388
Intangible plant	987,727		987,727
Construction work in progress	759,000	(b) (71,000)	688,000
Less-Customer advances on construction	<u>(345,000)</u>		<u>(345,000)</u>
Gross Plant	176,741,200		176,647,478
Less-Contributions in aid of construction	<u>(9,461,874)</u>		<u>(9,461,874)</u>
	167,279,326		167,185,604
Accumulated depreciation	(31,587,172)		(31,587,172)
Adjustment to accumu- lated depreciation	<u>(1,820,335)</u>		<u>(1,820,335)</u>
Net Plant	133,871,819		133,778,097
Deferred income tax	(10,859,145)		(10,859,145)
Deferred charges	2,005,700	(c) (942,982) (d) 57,500 (e) (19,046)	1,101,172
Working Capital Allowance			
-Cash working capital	(2,045,156)		(2,045,156)
-Other working capital	<u>3,062,882</u>		<u>3,062,882</u>
Utility Rate Base	<u>\$126,036,100</u>	<u>\$(998,250)</u>	<u>\$125,037,850</u>

Note: Minor discrepancies in these schedules are due to computer rounding.

NOTES TO SCHEDULE I

(a) Plant Additions (Exh. 2, Tab 3, Page 1)

(i) Overhead capitalized	
Per Application	\$3,447,248
Revised (Transcript P. 725)	<u>3,442,448</u>
	(4,800)

Mid-year \$ (2,400)

(ii) Vehicle carry forward	
Per Application	\$ 126,052
Revised (Transcript P. 728)	<u>85,408</u>
	(40,644)

Mid-year (20,322)

Adjustment \$ (22,722)

(b) C.W.I.P.
(Exh. 2, Tab 3, Page 4)

Per Application	\$ 759,000
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Revised: 3 year average (Transcript P. 1380)

$\frac{\$(545,692 + 713,897 + 804,340)}{3} =$	<u>688,000</u>
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Adjustment \$ (71,000)

(c) TMPL Acquisition Cost
(Exh. 2, Tab 3 Page 8.4)

Proposed treatment disallowed \$(942,982)

(d) Hearing Cost

Beginning	\$ -
Estimated cost	230,000
Amortization	<u>(115,000)</u>

Ending	\$ 115,000
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Mid-year \$ 57,500

(e) Deferred Charges (Exh. 40)

Per Application	\$2,005,700
Revised (Transcript P. 1248)	<u>1,986,654</u>

\$(19,046)

SCHEDULE II

INLAND NATURAL GAS CO. LTD.

Utility Income and Earned Return for the Year Ending June 30, 1984

	Per Application (Exhibit 2, Tab 15 Page 1)	Adjustments	Adjusted Balance
Sales Volume (GJ)	<u>48,663,212</u>		<u>48,663,212</u>
<u>Utility Revenue</u>			
Gas Sales - present rates	\$161,341,041		\$161,341,041
- interim rates	5,526,309	(d) \$ (92,704)	5,433,605
- refund		(261,263)	(261,263)
Total	<u>166,867,350</u>	<u>(353,967)</u>	<u>166,513,383</u>
<u>Expenses</u>			
Purchase of gas	113,085,152	(a) (7,427)	113,077,725
Operation & maintenance	15,957,077	(b) 82,360	16,039,437
Property, franchise and sundry taxes	9,459,208	(c) (9,348)	9,449,860
Depreciation and amortization	4,070,436		4,070,436
Other operating revenue	(579,420)		(579,420)
	<u>141,992,453</u>	<u>65,585</u>	<u>142,058,038</u>
Utility income before taxes	24,874,897	(419,552)	24,455,345
Income taxes - payable	6,372,040	(191,906)	6,180,134
- deferred	2,038,714		2,038,714
Total	<u>8,410,754</u>	<u>(191,906)</u>	<u>8,218,848</u>
EARNED RETURN	<u>\$ 16,464,143</u>	<u>\$(227,646)</u>	<u>\$ 16,236,497</u>
UTILITY RATE BASE	<u>\$126,036,100</u>	<u>\$(998,250)</u>	<u>\$125,037,850</u>
RATE OF RETURN ON RATE BASE	<u>13.06%</u>		<u>12.986%</u>

NOTES TO SCHEDULE II

(a) Peaking Cost of Gas

(Exhibit 2, Tab 9, Page 9)

Per Application	\$400,195	
Revised (Transcript P. 1240)	<u>392,768</u>	
		<u><u>\$ (7,427)</u></u>

(b) O & M Expenses

(Exhibit 2, Tab 10, Pgs. 1.01 & 1.02)

(i) Reduction on a/c 677 (Transcript P. 723)	\$(25,000)	
(ii) Reduction on a/c 721 (Transcript P. 725)	(19,200)	
(iii) Reduction of Overhead on a/c 721 (Transcript P. 1336)	(8,440)	
(iv) Forecast Services provided by Mr. Stokes disallowed (Exh. 6, Tab 6, Pg. 2)	(30,000)	
(v) Hearing Cost Estimated cost \$230,000 to be amortized over 2 years	115,000	
(vi) Long Range Planning Allowance	<u>50,000</u>	
		<u><u>\$ 82,360</u></u>

(c) Franchise Fees (Exh. 2, Tab 11, Pg. 1)

Reduction as result of adjustments

\$353,967 x 2.641%	<u><u>\$ (9,348)</u></u>
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(d) Adjustments per Applicant's

Submission, November 10, 1983	<u><u>\$ (92,704)</u></u>
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SCHEDULE III

INLAND NATURAL GAS CO. LTD.

Calculation of Income Taxes on Utility Income
for the Year Ending June 30, 1984

	Per Application (Exhibit 2, Tab 14 Page 1)	Adjusted Balance
<u>Calculation of Income Taxes</u>		
Earned return	\$16,464,143	\$16,236,497
Deduct: Interest on debt	(8,885,500)	(8,831,804)*
Add: Non-tax deductible expense (net)	<u>79,070</u>	<u>79,070</u>
Accounting income after tax	7,657,713	7,483,763
Deduct: Timing diff. adjustments	<u>(3,920,604)</u>	<u>(3,920,604)</u>
Taxable income after tax	<u>\$ 3,737,109</u>	<u>\$ 3,563,159</u>
Income tax rate (current tax)	52.454%	52.454%
1-current income tax rate	47.546%	47.546%
Income tax rate (deferred tax)	52.000%	52.000%
Taxable income before income tax	\$ 7,859,986	\$ 7,494,129
Add: Amount required to provide for deferred tax	<u>4,287,877</u>	<u>4,287,877</u>
Taxable Income	<u>\$12,147,863</u>	<u>\$11,782,006</u>
Income tax		
- current	\$ 6,372,040	\$ 6,180,134
- deferred	<u>2,038,714</u>	<u>2,038,714</u>
Total	<u>\$ 8,410,754</u>	<u>\$ 8,218,848</u>

* Debt interest on Rate Base of \$125,037,850 :

$$\$125,037,850 \times 7.064\% = \underline{\$8,831,804}$$

SCHEDULE IVINLAND NATURAL GAS CO. LTD.Common Equity as at June 30, 1984

	<u>Per Application</u> <u>(Exhibit 2, Tab 16</u> <u>Pages 1 and 5)</u>	<u>Adjusted</u> <u>Balance</u>
Common Share Capital June 30, 1983	\$ 3,095,763	\$ 3,095,763
Contributed Surplus June 30, 1983	8,804,119	8,804,119
<u>Retained Earnings</u>		
Balance, beginning of year	<u>26,604,088</u>	<u>26,604,088</u>
Forecast corporate net income for the year excluding Trans Mountain related transactions	\$ 7,768,000	\$ 7,495,939
Forecast dividends from Columbia Natural Gas	-	-
Deduct:		
Dividends on preference shares	(1,207,000)	(1,207,000)
Dividends on common shares (3,095,763 @ \$1.10)	(3,405,339)	(3,405,339)
Amortization of preference share issue cost	<u>(32,000)</u> <u>3,123,661</u>	<u>(32,000)</u> <u>2,851,600</u>
Total June 30, 1984	<u>\$41,627,631</u>	<u>\$41,355,570</u>
Common Equity as at June 30, 1983	<u>\$38,503,970</u>	<u>\$38,503,970</u>
Mid-Year Common Equity	<u>\$40,065,800</u>	<u>\$39,929,770</u>

INLAND NATURAL GAS CO. LTD.Return on Capital

<u>Particulars</u>	<u>Capitalization</u>		<u>Average Embedded Cost</u>	<u>Cost Component</u>
	<u>Amount</u>	<u>%</u>		
<u>Per Application</u> (Exhibit 2, Tab 16, Page 1)				
Long Term Debt	\$ 53,570,500	41.52%	12.389%	5.14%
Short Term Debt	19,266,456	14.93%	12.800%	1.91%
Preference Shares	16,110,000	12.49%	8.337%	1.04%
Common Equity	<u>40,065,800</u>	<u>31.06%</u>	<u>16.000%</u>	<u>4.97%</u>
	<u>\$129,012,756</u>	<u>100.00%</u>		<u>13.06%</u>
<u>Adjusted Balance</u>				
Long Term Debt	\$ 53,570,500	41.57%	12.389%	5.150%
Short Term Debt*	19,266,456	14.95%	12.800%	1.914%
Preference Shares	16,110,000	12.50%	8.337%	1.042%
Common Equity	<u>39,929,770</u>	<u>30.98%</u>	15.75%	<u>4.880%</u>
	<u>\$128,876,726</u>	<u>100.00%</u>		<u>12.986%</u>

* No change to short-term debt. The rate base is deemed to be financed in the same ratio as the corporate capitalization. (May 25, 1983 Decision Page 13).