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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
an Application by
Fort Nelson Gas Ltd.

DECISION

March 12, 1985

J.D.V. Newlands, Deputy Chairman and
Chairman of the Division
N. Martin, Commissioner

The Application by Fort Nelson Gas Ltd. dated October 5, 1984 as amended, was heard in Fort Nelson, British Columbia on January 29, 30, 31 and February 1, 1985.

The Application was heard by J.D.V. Newlands, Deputy Chairman and N. Martin, Commissioner.

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APPEARANCES

MR. R.R. DODD	for the Applicant
MR. L. HINDLE	for the British Columbia Hydro and Power Authority
MR. G. A. FULTON	for the Commission

COMMISSION STAFF	Mr. B. McKinlay, Acting Director, Accounting and Financial Analysis and Senior Financial Analyst
	Mr. J. Hodson, Senior Financial Analyst
	Mr. Y. Wong, Senior Economist
	Mr. D. Leach, Director, Hearing Coordination
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LIST OF EXHIBITS

LIST OF EXHIBITS
(cont'd))

I. INTRODUCTION

Fort Nelson Gas Ltd. ("the Company" or "the Applicant") a subsidiary of Colonial Oil and Gas Limited (a growth-oriented resource company with assets of approximately $75 million in 1983) owns and operates a natural gas transmission and distribution system serving the community of Fort Nelson and its environs.

The Applicant obtains its gas supply from the British Columbia Hydro and Power Authority who in turn purchase the gas from Westcoast Transmission Company Limited and resell it to the Applicant at cost. The purchased gas is moved by the Applicant through its pipeline system (capability of 20,000 Mcf/D) to supply the requirements of the residential, commercial and industrial customers. In addition, a transmission service is provided to the British Columbia Hydro and Power Authority, the largest user of the transmission system, for its electrical generating facility located in Fort Nelson.

Fort Nelson is located at mile 300 of the Alaska Highway and has benefitted from the discovery of oil and gas in the 1960's and the arrival of the British Columbia Railway in 1971.

Mr. Ashdown, the Manager of Fort Nelson Gas and an Alderman, gave evidence that Fort Nelson was not hurt as badly as other communities when the recession came as they were not overbuilt; that the Desan oil field was very active; that an oil discovery had been made at Prophet River 60 miles south of Fort Nelson, which in conjunction with the Desan field to the north may indicate the existence of an oil field similar to Pembina in Alberta; that Tackama Forest Products had just completed the construction of a plywood plant that resulted in the creation of 80 new jobs; that the Liard Highway completion to Fort Simpson should increase tourism and that a study is currently underway with regard to a pulp mill in north-eastern British Columbia from which Fort Nelson would benefit.

II. THE APPLICATION

Fort Nelson filed an Application dated October 5, 1984 for a General Rate Increase, the first such general increase since 1978. The unadjusted return on rate base during this period was as follows:

1979	16.02%
1980	11.84%
1981	14.33%
1982	13.86%
1983	7.30%

The Commission pursuant to Commission Order G-69-84 approved an interim increase of 7.5% effective December 1, 1984 subject to refund with interest and set the Application for hearing in Fort Nelson, British Columbia commencing on Tuesday, January 29, 1985.

By letter dated December 7, 1984, the Application was amended, and further amended by letter dated January 7, 1985.

The Application, with regard to rates, is in essence divided into five parts, namely, an interim for which an Order has been issued, an Application with respect to final rates, an interim adjustment sought with respect to the wheeling rates, a final adjustment sought in respect of wheeling rates and miscellaneous tariff adjustments.

The Application was, amongst other matters, predicated upon significantly reduced industrial volumes, the adoption of flow-through income taxes and the related treatment of the present loss carry-forward, and the appropriate treatment of security deposits.

The industrial volumes have declined from approximately 346,000 Mcf in 1981 to a forecast volume of 116,000 Mcf due to the installation of a Kona* system by Tackama Forest Products Ltd. and the bankruptcy of Fort Nelson Forest

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* Kona hot oil system with heat generated from waste wood.

Industries Ltd. If these volumes had not declined the increase sought would have been approximately 3.5 percent.

In addition, an Application was made for the approval of a bond issue of up to $400,000 bearing interest at approximately 13.5%.

III. TEST YEAR

The Application is based upon a forecast 1985 test year with an estimated mid-year rate base of approximately $1,590,000 and concomitant revenue requirement of approximately $2,044,000.

IV. RATE BASE

The Commission has considered the proposed rate base put forward by the Applicant and believes adjustments are required as follows: calculation of the average inventory, and capitalization of certain administrative and general expense items related to construction.

(a) Administrative and General Charges to Construction

The Uniform System of Accounting for Gas Utilities requires that a part of Administrative and General expenses, including employment benefit expenses on behalf of Operating and Maintenance employees, be charged to construction. These charges vary in accordance with construction activity, from year to year. The Company submitted, when requested, calculation of the amounts to be transferred for 1984 and 1985 based on wages charged to construction relative to total Operating and Maintenance wages. The Commission accepts this treatment, and has made an adjustment accordingly.

(b) Contributions in Aid of Construction

The Commission concurs with the Applicant's proposed prospective treatment, namely the amortization thereof to the cost of service but does not concur with the Applicant's suggestion that this change should be made retroactively since to the extent possible rate making should be prospective.

(c) Transmission Systems

In both this and the previous proceeding, the evidence indicated that due to inadequate construction practises at the time of installation, it is likely that a portion of the transmission system will require premature replacement.

The Commission concurs with the Applicant's intention to replace the seized mainline valve, replace a section of "bruised pipe" and install additional transmission pipe, which will both enhance the security of service and increase the system capacity.

V. COST OF SERVICE EXCLUDING RETURN

The Commission has considered the proposed cost of service exclusive of return and believes certain adjustments are required to reflect increased office efficiency, the appropriate treatment of security deposits and the appropriate treatment of income tax and loss carry-forward.

(a) Treatment of Customer Security Deposits

At page 462 of the transcript Mr. Dodd explained the Company's request in its October 5, 1984 letter (Exhibit 2, Tab 1, paragraph 8) to earn a return on customer security deposits, as follows:

> "The present treatment given here is, it's a zero cost capital item, so it has been included as a deduction from rate base, rather than being offset as a particular component of capitalization. In the derivation of earned return, the interest related to the customer deposits is reduced, that reduces earned return.
>
> So, the effect referred to in paragraph 8 is the company receives credit for an interest component on this at the rate of prime plus one per the tariff, the company has proposed that we earn return equal to the proposed return on rate base, and that the interest expense be included in the embedded cost of the customer deposit capital as a portion of capitalization."

Mr. Heerensperger, on page 461 of the transcript, in answer to a question by Commission Counsel:

> "The exhibit has been prepared with reference to the 1978 decision regarding the company on the record, and it represents the approved accounting practice of a utility at this point."

The Commission concludes that these funds were provided by the customers and hence it is inappropriate for a return to be earned thereon by the company.

(b) Income Tax

The Applicant proposed to change from the normalized method to flow-through and, through its witness Dr. Robert Evans, gave evidence as to why the loss carry-forward should accrue to the benefit of the shareholders.

With regard to the Applicant's proposal to change from normalized to flow-through, the proposal has been rejected due to the intergenerational inequity which would result. This inequity is due to the proximity of the point in time when depreciation for income tax purposes is less than book depreciation and the significant adverse impact upon the Applicant's near term financial flexibility. Needless to say if circumstances change, this matter can be reviewed at a future proceeding.

With regard to the loss carry-forward evidence given by Dr. Evans, the Commission is of the view that since normalized income tax has been continued, the loss carry-forward associated with flow-through income tax does not require further consideration at this time.

In this regard, although the Applicant's witness relied to some extent upon the Vancouver Island Gas Company Ltd. ("Vigas") Decision of this Commission dated July 29, 1983, the Commission would observe that the circumstances of the companies are quite different inasmuch as Vigas, to the date of the Decision, had never earned a reasonable return, or in fact in many years, did not even make a profit whereas the earnings history of the Applicant since 1978 has been significantly different as set forth on page 2 of this Decision.

VI. RATE OF RETURN

The original Application dated October 5, 1984 put forward a capital structure containing an equity component of approximately 77.6% upon which the Applicant sought a return of 16%.

In December of 1984 the Applicant retained Dr. Robert E. Evans, President of Economic Research Associates Limited ("E.R.A."), with regard to Loss Carry-forwards, Capital Structure and Comparative Investment Risks, and on Rate of Return Mr. Jerry P. Evans, M.A.Sc, M.B.A., Vice President E.R.A. Limited.

Dr. Evans reviewed financial risk, business risk, financing flexibility, the relevant provision of the Trust Deed and investment risks, and concluded that a 55% equity ratio should be considered as a lower limit unless there are significant increases in the return on equity or unless income taxes are calculated on the normalized basis for rate making purposes. He further concluded that the investment risks are no less than those T.S.E. listed companies generally and are also no less than those of major, privately-owned utilities generally.

Mr. Jerry Evans reviewed interest rates, capital market conditions, equity risk premium and concluded that a 15.5% return on original cost common equity does not exceed the fair rate of return to Fort Nelson Gas at this time.

With specific regard to interest rates it was Mr. Evans view that:

> ". . . In terms of those long-term rates, I think that we do face a problem, both in Canada and the U.S., as a result of the enormous government deficits. And I really and truly feel that those deficits will play an important role in applying pressure to the capital markets.
>
> We'd talked about inflation earlier and although inflation and long-term interest rates traditionally held a relationship to some extent, I think by and large that relationship today does not exist because of these government deficits. And we spoke earlier on in

> cross-examination of what might happen to interest rates if inflation rates were to stay at current levels for a prolonged period of time.
>
> I think you're right, that if we did not have the government deficits that we do, that all other things being equal, the interest rates would come off, but we still have those deficits, they are a nagging problem and I quite frankly feel that interest rates in the longer term will increase from this level."
>
> [Transcript Vol. 4, pg. 637]

In order to achieve both a fair return to the owners and a cost effective capital structure for the benefit of rate payers the Commission has accepted the evidence with regard to rate of return on equity of 15.5% given by E.R.A. but believes the deemed equity component must be reduced from 55% to approximately 40%. This adjustment has been made on Schedule V. The resulting interest coverage on funded debt is in excess of 3 times.

With regard to the cost of this evidence the Commission must express its concern inasmuch as it is the Commission's view that the cost is excessive in relationship to the size of the utility. The direct (approximately $20,000) and indirect costs represent approximately 25% of the hearing cost.

In the alternative the Commission believes that the suggestion that the rate of return on equity be determined on the basis of average returns on equity allowed by the Commission in their recent decisions, in which rate of return evidence was given, has merit and would reduce the cost significantly and would not reduce the accuracy of the resultant return within reasonable limits. The Commission would suggest the Applicant give consideration to adopting the above method in its next revenue requirements application.

VII. OTHER MATTERS

(a) Wheeling Agreement

In addition to the distribution of natural gas to customers in Fort Nelson and environs, the Applicant provides a transmission or wheeling service to the British Columbia Hydro and Power Authority.

The Applicant proposed in its Application that the charges for this service be increased by approximately $15,200 and B.C. Hydro, based on its interpretation of the contract, argued that the increase could only be $367 or approximately $1 per day.

In its consideration the Commission considered not only the legal argument put forward by B.C. Hydro but also the historical circumstances of the agreement. Mr. Dodd, Counsel for the Applicant described the circumstances as follows:

> "Mr. Chairman, Dr. Keenleyside came to Fort Nelson and made a speech, and when he made the speech he promised the people of Fort Nelson a gas service and an electric service. He was then Chairman of the British Columbia Power Commission.
>
> The British Columbia Power Commission then built a gas line from the Clark Lake gas field into Fort Nelson for generating electricity and they proceeded to take over, I think from Northland Utilities? He took over the electrical system from Northland Utilities.
>
> However, the gas contained 20 percent carbon dioxide and contained sulphuric compounds. It was therefore unsuitable for distribution as gas but it was suitable for burning in a diesel plant.
>
> Then came the Anschluss between British Columbia Power Commission and British Columbia Electric, and Dr. Keenleyside came to me and asked me what we could do about this, and we had requested a company from Edmonton to -- who wanted to distribute gas in Fort St. John.
>
> They were promoted and they were going to do two things. They were going not only to distribute gas in Fort Nelson, I should say, they were not only going to distribute gas in Fort Nelson, they were going to liquify gas here and peddle it up the Alaska Highway. They

thought there were opportunities for LNG here as well, and Mr. Sparling, who was the promoter of it, who is now long since dead, came in with that proposition.

So they bought a scrubbing plant which I think had previously been used by another gentleman in this room, and they moved it up here to scrub the gas, to provide a gas for local usage. It has a very limited capacity, this scrubbing plant. And at that point, then, B.C. Hydro did not want to provide any gas operating division up here to run this gas pipeline and look after it, so an arrangement was made whereby Fort Nelson Gas and Cryogenic Enterprises would operate the pipeline, operate the two gaswells and the pipeline, connect the second gaswell up and feed gas in here and supply gas to B.C. Hydro for their generating station.

This took quite a bit of negotiating and it was eventually done. It went ahead. Now, the capacity of the scrubbing plant was very insignificant and it was, after a short period of time B.C. Hydro's plant reverted back to burning the unscrubbed gas, which it was capable of doing but I guess it would reduce the efficiency of the engines, because it was only 800 btu gas instead of 1,000.

The next thing that happened was that Mr. D.P. McDonald came over to see me on endless negotiations, wanting to extend Westcoast Transmission's plant to Fort Nelson, and he had been encouraged by Mr. W.A.C. Bennett to do this. There was a competition of the Alberta and Southern Line that was going to come in grab the Fort Nelson gas and run it down through Alberta, ship it all off to San Francisco and we were all concerned about that, but there seemed to be no adequate way to assist Mr. McDonald in his scrubbing, in his extension up here.

It was a major extension which he had got under construction with another company under provincial control, so he kept coming over. And finally I got fed up with this and lay awake one night and devised a method of financing it, so about two days later I had drafted the documents and Mr. McDonald came over to Mr. Barchard's office and sat there and went through his harangue again as to, and if you knew Mr. McDonald you'd understand this, went through his harangue again as to how to do this.

Finally I said, "Well, D.P., we've done some thinking about this and we think we can help you and we have drafted some documents", at which he leaned out and he just took everything that was on the table and wiped it off and threw it on the floor. He said, "Let's see it".

[Transcript Vol. 2, pp. 326-327]

We brought it out, and we had drafted this document especially for the bankers, contained three consecutive foolscap long pages of payments that we guaranteed to Westcoast Transmission, if they would build this line up here, and we would agree then to replace the burning of oil in the Burrard Steam Plant which we were then operating, with gas.

[Transcript Vol. 2, pp. 326-327]

On the basis of that he was able to go to the financial people with these guaranteed payments, which were about a quarter to half a million dollars per month, they were a substantial sum, he went to his financial people who agreed then to finance the line up here and build the line up here, which they did.

So we wound up, then, in the Fort Nelson area, with -- . . . "

[Transcript Vol. 2, pp. 327-330]

". . . British Columbia, we in British Columbia, wound up in the fort Nelson area having a major, the world's largest scrubbing plant sitting out here 15 miles out the highway. And here we are with an inadequate system here, so it was agreed that Mr. Bannister, who had then taken over this system from Mr. Sparling, agreed to raise the money to build a pipeline in from there to Fort Nelson and the gas from the wells that we were tapping, in the Clark Lake field, would be put directly into the gathering system of Westcoast Transmission, go through the scrubbing plant. D.P. McDonald agreed on a scrubbing plant rate figure of 3¢ per Mcf to scrub it, so they then built that line.

Under all these conditions it was B.C. Hydro that had the investment in the pipeline, the first pipeline. So a new pipeline had to be built from Mile 284 up to the Muskwa where it would then join the one from Clark Lake.

This was done, a three-inch line was built by Mr. Bannister, and the deal then was that the gas company here would have an option for $30,000 to buy the pipeline and would carry up to 2,500 Mcf per day free through the transmission system for B.C. Hydro to 1986."

[Transcript Vol. 2, pp. 330-331]

". . . And that was what we were faced with when we came into the negotiations. What happened was that they got beyond the 2,500 per day."

[Transcript Vol. 2, pp. 330]

The Applicant excercised its option in 1975 and purchased the facility. Subsequently, the system was expanded to meet current and forecast requirements of B.C. Hydro and the Fort Nelson market.

The contract at issue was freely negotiated by the parties and accepted by the Commission on May 12, 1982.

The Commission has considered the evidence and argument given, concurs with Mr. Dodd, Counsel for the Applicant, that the initial proposal was more beneficial to the Applicant and other customers but finds pursuant to the executed contract that the increase to B.C. Hydro as argued by B.C. Hydro's Counsel, be as set forth in the contract ($367 per year). The remaining short-fall will necessarily be collected from the other customers.

In general it would appear that the agreement places B.C. Hydro generally in a similar position to that which it would have been in if it had constructed the transmission system itself. In the alternative, if this had been done the utility would have suffered a loss of revenue of approximately $104,900 in 1984.

Accordingly, the Commission does not believe that the terms and conditions of the contract should be altered at this time and if any change was considered, additional evidence from both parties would be required.

(b) Financing

The Applicant indicated that it would be seeking additional long-term financing of approximately $400,000 at 13.5% from Great West Life in 1985 to replace a portion of existing shareholder loans.

In the case of this Applicant and in view of its cost effective financial arrangements with Great West Life, whereby they can increase their long-term debt at minimal cost; the Commission approves the issuance of up to approximately $400,000 at a rate not to exceed 13.5%, the issue to be placed prior to December 31, 1985.

The appropriate adjustment has been made in the cost of capital schedule of this Decision.

Needless to say if the Applicant can achieve a lower rate the shareholders will be the beneficiaries in the short-term with a substantial benefit accruing to the customers over the life of the issue.

VIII. HEARING COSTS

The Commission is concerned with the magnitude of the cost incurred in this proceeding and believes steps must be taken to reduce these costs significantly (Appendix A).

In fairness to the Applicant, it must be recognized that this is the first Application for general rate relief in five years and that the Application, by necessity, was prepared with external assistance.

The problem is not totally the process itself but to some degree reflects internal changes in the Applicant's parent company which are reflected in the refiling of the Gas Utilities Annual Reports from 1978 to 1983 and major changes in the Application from the initial filing to the hearing date.

The Commission believes that significant cost reductions will take place at future proceedings inasmuch as the applicant's senior financial officer now has a good understanding of the process and will be able to prepare a clear and concise Application in considerably less time and expense. A concomitant benefit will be substantially reduced hearing time which in turn reduces the cost to both the Applicant, the Commission and other participants.

Accordingly, the Commission believes that 40% of the Applicant's costs incurred exclusive of the $24,000 incurred by E.R.A. should be written-off over a ten-year period. The balance of the costs are to be written-off over a four-year period. If Applications become more frequent the amortization period will be shortened.

With regard to the Commission charges to the Applicant of approximately $18,000, these, in conjunction with the Applicant's balance of approximately $55,000, will be written-off over four years.

IX. DECISION

The Commission confirms the interim increase approved January 1, 1985 and will accept for filing effective April 1, 1985 revised tariff rate schedules to permit the Applicant the opportunity to earn the revenue requirement set forth on Schedule II. Generally, these are the rates as proposed by the Applicant but adjusted to reflect increased costs.

The "Wheeling Agreement" rate between B.C. Hydro and the Applicant is to be increased by approximately $367 per year and the residual costs initially assigned by the Applicant to B.C. Hydro must be recovered from the other customers.

The Commission approves the revised connection charges set forth in the Application.

The above adjustments are to become effective April 1, 1985 subject to timely filing.

DATED at the City of Vancouver, in the Province of British Columbia this 12th day of March, 1985.

J.D.V. NEWLANDS, Deputy Chairman and
Chairman of the Division

N. MARTIN, Commissioner

ORDER NUMBER G-22-85

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 Fort Nelson Gas Ltd.

BEFORE:	J.D.V. Newlands, Deputy Chairman; and N. Martin, Commissioner	March 12, 1985

O R D E R

WHEREAS Fort Nelson Gas Ltd. ("FNG") filed an application for rate relief on October 5, 1984, as amended December 7, 1984 and January 7, 1985; and for corresponding amendments to its filed Schedule of Rates; and

WHEREAS pursuant to Order No. G-69-84, FNG was granted an interim refundable increase of 7.50 percent effective November 1, 1984; and

WHEREAS pursuant to Order No. G-69-84, the Application was heard in a public hearing in Fort Nelson during the period January 29 through February 1, 1985; and

WHEREAS the Commission issued a Decision in this matter dated March 12, 1985.

NOW THEREFORE the Commission hereby orders as follows:

1. The revenue requirement of Fort Nelson Gas Ltd. for the Test Year ending December 31, 1985 is, as determined in the Decision issued concurrently with this Order, approximately $1,920,000.

.../2

2. FNG is granted the opportunity to earn a rate of return of 15.50 percent on common equity.

3. The interim rates authorized for implementation effective November 1, 1984 are confirmed as firm rates.

4. The Commission will accept, subject to timely filing, amendments effective April 1, 1985 to the Tariff Rate Schedules; and to the Service Connection charges contained in FNG's filed Tariff which will reflect the results of the Commission Decision.

5. FNG will comply with the directions incorporated in the Commission's Decision, including the appropriate adjustment on charges payable to FNG by B.C. Hydro in accordance with the Wheeling Agreement on and after April 1, 1985.

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of March, 1985.

BY ORDER

Deputy Chairman and
Chairman of the Division

UTILITY RATE BASE
$000'S
SCHEDULE I(TAB 11-I-S6)

SCHEDULE 1

	85.01.07 APPLICANT	BCUC ADJUSTMENTS AMOUNT	REF.	'1985 ADJUSTED
Gas plant in service, Jan1	$2,542			$2,542
Changes @ 50%				
-Additions to in service	37	14	(C)	51
-Intangible plant	0			0
-Construction in progress	0			0
-advances	0			0
GROSS PLANT (mid year)	2,579	14		2,593
-CONTRIBUTIONS-NET	-288			-288
	2,291	14		2,305
-Accum. Depreciation	-494			-494
-Adj. to Acc. Deprec'n				0
NET PLANT (mid year)	1,797	14		1,811
Customer deposits	-112			-112
Deferred charges	50	20	(H)	70
WORKING CAPITAL	20	-34	(B+G)	-14
UTILITY RATE BASE	$1,755	$0		$1,755

FORT NELSON GAS LIMITED

Notes to Schedule I

(B) To adjust 1985 inventory to reflect the use of 4" pipe in 1985 construction. Reduce Rate Base $8,000.

(C) To capitalize Administrative and General expense in the amount of $14,000, as submitted by Applicant.

(G) To reduce Working Capital $26,000 due to implementation of computer billing system.

(H) To increase Deferred Rate Hearing Costs by $20,000 to reflect actuals.

UTILITY INCOME AND EARNED RETURN SCHEDULE 11

$000's Sch. II (Tab 11-page 3)	85.01.07 APPLICANT	BCUC ADJUSTMENTS AMOUNT	 REF.	1985 ADJUSTED
SALES VOLUME 000'S Mcf	514	-2	(D)	512
% Increase in unit revenue	12.88%	2.60%		15.49%
Average new unit revenue	$3.665	$0.079		$3.744
UTILITY REVENUE-GAS				
-present rates, $3.25	$1,669	($9)	(D)	$1,660
-interim rates, +7.50%	124	0		124
-adjustment, +5.4%	91	42	(L)	133
TOTAL REVENUE	$1,884	$33		$1,917
Less cost of gas(+fed tax)	1,155	-5	(D)	1,150
GROSS MARGIN	$729	$38		$767
O & M wages	242	-2	(A)	240
O & M net all other costs	198	5	(C+H)	203
Depreciation & amortization	68	0		68
Municipal and other taxes	57	0		57
Interest on cust.deposits	11	0		11
Other operating revenue	-160	16	(K)	-144
OPERATING EXPENSES	$416	$19		$435
Utility income before tax	$313	$19		$332
INCOME TAX EXPENSE	$87	$31		$118
EARNED RETURN	$226	($12)		$214
UTILITY RATE BASE	$1,755	$0		$1,755
RATE OF RETURN	12.90%	-0.70%		12.20%

FORT NELSON GAS LIMITED

Notes to Schedule II

(A) To reduce office salaries due to greater efficiency by Vancouver staff.

(C) To capitalize Administrative and General Expense in the amount of $14,000, as submitted.

(D) Reduction in sales due to projection of fewer customers.

(N) To adjust Rate Hearing Costs by $19,000 to reflect revised amortization periods.

(K) To adjust Wheeling revenue.

(L) Adjustment to meet revenue requirements.

INCOME TAXES SCHEDULE 111

$000's	85.01.07	BCUC ADJUSTMENTS		1985
Sch. III(Tab 11-page 4)	APPLICANT	AMOUNT	REF.	ADJUSTED
Earned return	$226	($12)		$214
Deduct: interest	-102	-3		-105
add: non-deductibles	11	-11	(F)	0
Acctng. income. aft. tax	135	-26		109
Deduct: timing diff's	-55	-41	(H)	-96
TAXABLE INCOME AFTER TAX-FOR TAX RETURN	$80	($67)		$13
Income tax rate	52.0%	0.0%		52.0%
Deferred tax rate	52.0%	0.0%		52.0%
Taxable income. bef. tax	$167	($140)		$27
Deferred tax-grossed up	0	104	(E)	104
Timing differences	0	96	(E)	96
TAXABLE INCOME BEFORE TAX-FOR ACCOUNTING	$167	$60		$227
Income tax expense				
-flow through (payable)	$87	($73)		$14
-payable on deferred	0	54		54
-deferred	0	50		50
INCOME TAX EXPENSE	$87	$31		$118

FORT NELSON GAS LIMITED

Notes to Schedule III

(E) To revert to a deferred tax basis.

(F) To allow deduction of interest on customer deposits for tax purposes.

(H) To adjust for actual Rate Hearing Costs.

COMMON EQUITY $000's Sch. IV (Tab 11-I-S5)	85.01.07 APPLICANT	BCUC ADJUSTMENTS AMOUNT	REF.	SCHEDULE IV 1985 ADJUSTED
OPENING BALANCE				
Share capital	$130	$0		$130
Retained, opening	633	-87	(1)	$546
	763	-87		676
Net income	132	-23	(1)	109
Deduct:				
Dividends Pref.	0	0		0
Dividends Common	0	0		0
Add:				
Issue common				
CLOSING BALANCE	$895	($110)		$785
COMMON EQUITY Mid-year average	$829	($99)		$731
INTEREST COVERAGE TEST				
Net income	$132	($23)		$109
Plus all interest expense	$102	$3		$105
Plus income taxes	$87	$31		$118
subtotal	$321	$11		$332
Interest on funded debt	$90	$11		$101
Coverage times	3.56	-0.28		3.29

FORT NELSON GAS LIMITED

Notes to Schedule IV

(I) To reflect a 40% Equity ratio and proposed financing.

RETURN ON CAPITAL $000'S SCHEDULE V(Tab 11-page1)	85.01.07 APPLICANT	BCUC ADJUSTMENTS AMOUNT	REF.	SCHEDULE V 1985 ADJUSTED
Deferred income tax	$165	$71	(E+J)	$236
proportion	9.40%	3.52%		12.92%
embedded cost	0.000%	0.000%		0.000%
return	0.00%	0.00%		0.00%
Long-term debt	$395	$0		$395
proportion	22.51%	-0.87%		21.63%
embedded cost	11.840%	0.000%		11.840%
return	2.66%	-0.10%		2.56%
Advances from parent (FUNDED)	$320	$80	(I)	$400
proportion	18.23%	3.65%		21.88%
embedded cost	13.500%	0.000%		13.500%
return	2.46%	0.49%		2.95%
"Deemed" UNFUNDED advances	$0	$65	(I)	$65
proportion	0.00%	3.56%		3.56%
embedded cost	0.000%	12.500%		12.500%
return	0.00%	0.44%		0.44%
Common equity	$875	($145)	(I)	$731
proportion	49.86%	-9.85%		40.01%
ROE	15.500%	0.000%		15.50%
return	7.73%	-1.53%		6.20%
TOTAL CAPITAL	$1,755	$71		$1,826
RATE OF RETURN	12.90%	-0.70%		12.20%

FORT NELSON GAS LIMITED

Notes to Schedule V

(E) To revert to a deferred tax basis.

(I) To reflect a 40% Equity ratio and proposed financing.

(J) To reflect deferred income taxes as a part of capitalization.

APPENDIX A

FORT NELSON GAS LTD.

Schedule of Rate Hearing Costs

Deloitte Haskins & Sells	$ 9,750
W.W. McIlroy, C.A.	9,273
Swinton & Company	17,505
Economic Research Associates Limited	23,992
Colonial Oil & Gas Limited	12,000
Company Costs	2,644
All-West Reporting (transcript)	940
Fort Nelson News (advertisements)	191
	$76,295
British Columbia Utilities Commission Costs	17,793
Total Rate Hearing Costs	$94,088