

IN THE MATTER OF the Energy Act

and

IN THE MATTER OF an Application by
Vancouver Island Gas Company Ltd.

DECISION

September 10, 1980

Before R. Smith, Deputy Chairman,
D. B. Kilpatrick and J. D. V. Newlands, Commissioners

The Application of Vancouver Island Gas Company Ltd. dated May 5, 1980 for approval pursuant to Section 35 of the Energy Act for a change in rate schedules and the approval by the Commission of a "Rate Equalization Plan" was heard at a public hearing in Nanaimo, British Columbia on July 30, 1980.

The Commission comprised R. Smith, Deputy Chairman; D.B. Kilpatrick, Commissioner; and J.D.V. Newlands, Commissioner.

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SCHEDULE I

Utility Rate Base

SCHEDULE II

Allowance for Working Capital

SCHEDULE III

Adjusted Utility Income and Earned Return

ORDER G-54-80

APPEARANCES

D. A. Farquhar

Commission Counsel

J. E. Carstairs

for Applicant
Vancouver Island Gas Company Ltd.

R. Dyce

for Pacific Northern Gas Ltd.

LIST OF EXHIBITS

1. Affidavit of Service, Jim McCartan, July 29, 1980.
2. Application of Vancouver Island Gas Company Ltd.
November 15, 1979 and amended Application November 22,
1979 to revise its rate schedules.
3. Material in support of the Application of Vancouver
Island Gas, May 5, 1980.
4. Revised schedules as requested by Commission Staff
June 4, 1980.
5. Reply to verbal request by Commission Staff for
additional information:
 - (a) Item III(a)
 - (b) Item II(b)
 - (c) Item VII
 - (d) Item VI
 - (e) Item VIII
6. Response to requests for additional information May 28,
1980 and June 27, 1980.
7. Calculation of effective equity return.
8. 1979 Year end Capital Structure.
9. Intervention of Mr. John Symon.
10. Intervention of Inland Natural Gas Co. Ltd. July 28,
1980.

1. INTRODUCTION

By Order No. G-46-79 dated November 30, 1979, the Commission accepted for filing amended tariff rate schedules submitted by Vancouver Island Gas Company Ltd. (hereinafter called Vigas or the Applicant). Such amended tariff schedules, incorporating an increase in monthly rates of 11.61 cents/Ccf for butane gas (equivalent to 11.08 cents/Ccf of propane gas) were made effective November 1, 1979, on an interim basis, subject to refund at 9% interest per annum.

The Applicant was concurrently instructed to file an application with the Commission by February 29, 1980; a date which was subsequently extended to March 14, 1980.

On March 12, 1980 the Applicant applied to increase its rates for butane service but subsequently requested deferral of the application.

On May 5, 1980 Vigas applied for approval of a plan to permit the modification of its plant, permitting the use of either propane or butane, or a blend thereof. This application also requested confirmation of existing rates plus a further increase of 1.14 cents/Ccf for Residential Service and 1.38 cents/Ccf for Commercial Service, applicable to consumption of gas on and after June 1, 1980.

By Order No. G-32-80, dated May 30, 1980, the Commission authorized the Applicant to use propane in substitution for butane, and accepted for filing tariff rate schedules

amended to reflect the reduction in calorific value of the gas from 1200 Btu/cf to 1145 Btu/cf.

On June 12, 1980, by Order G-35-80, the Commission set down the rate matters for public hearing in Nanaimo. Advance notice of the public hearing was published in local newspapers and mailed to each customer.

2. TEST YEAR

The Applicant presented rate base and cost of service data for the year ended December 31, 1979, together with the normalization and annualization adjustments considered necessary for a test year. These, together with other adjustments considered necessary by the Commission, are detailed in the respective rate base/cost of service sections.

3. RATE BASE

The Applicant presented data in support of a Rate Base of \$1,305,426. This comprised the Mean Depreciated Plant in Service, plus Working Capital, less Customer Contributions.

The calculation submitted by Vigas has been amended by the Commission in the sum of \$3,280, resulting from Working Capital adjustments flowing through from changes in operating expenses and inventory as detailed in the Cost of Service section.

4. COST OF SERVICE EXCLUDING
RETURN ON RATE BASE

The Applicant submitted a statement of Revenues and Operating Expenses showing a Utility Loss of \$117,500. The Commission has adjusted this for three items having a net effect of \$1,281, resulting in an adjusted Utility Loss of \$118,781.

These items are

1. Weather normalization effect.
2. Annualization of extension to Country Club shopping centre.
3. Salary adjustments.

The Commission has also considered the possibility of an adjustment for "unaccounted for" gas. While this has been reduced from 17.1 per cent in 1975 to 9.4 per cent in 1979, this percentage remains high and is acknowledged by the Applicant to be "too much of an unaccountable". It is not entirely clear how much of this figure is truly gas lost and how much the result of mechanical and accounting deficiencies. However the Applicant did submit that a probable change to billing on an energy basis, with proper recording, would reduce the losses to a reasonable amount. The Applicant is given notice that the Commission considers the existence of "gas losses" of 9.4% as requiring action by Vigas. A disallowance has not been made in this instance but action to produce a more reasonable "gas loss" figure is required if disallowance is to be avoided in future rate cases. The

Commission would, of course, take into consideration developments in the supply of natural gas to Vancouver Island and the prospect of a limited useful life for equipment associated with propane/air supply.

In general, the Commission believes that Vigas management has performed well under difficult circumstances. The Commission also acknowledges that the provision of "free" maintenance and advisory services, as suggested by Mr. John Symon, is difficult for the Applicant at this time. Nevertheless, it is suggested that Vigas give consideration to steps which it might be able to take to assist customers in the area of fuel efficiencies.

5. ESTABLISHMENT OF RATE EQUALIZATION/STABILIZATION ACCOUNT

The Applicant has requested

"... approval in principle to establish a rate equalization account in which the revenue deficiency in 1980 and further years could be accumulated for recovery in rates in the future when circumstances permit."

It is apparent that the wording "the future when circumstances permit" has reference to the prospective availability of a secure supply of natural gas to Vancouver Island.

While the matter of supply of natural gas to Vancouver Island was not a part of these proceedings, nevertheless it cannot be ignored completely. Vigas has a Certificate of Public Convenience and Necessity to distribute natural gas in Nanaimo and adjacent areas, should natural gas become available. Moreover, incorporation of all or parts of the present Vigas distribution system into a future natural gas system may result in lower capital costs for the system which will distribute natural gas, and thus create some future benefit which might be allocated between consumers and investors.

The hearing, however, failed to produce evidence of any precedent appropriate to the Applicant's current circumstances which would support the proposed accumulation of current and future revenue deficiencies. The Commission recognizes that special circumstances can and sometimes do provide a valid basis for establishing a precedent in regulatory accounting principles. The Commission in this instance does not regard the possibility that natural gas may ultimately reach Vancouver Island as a valid basis for creating the proposed precedent, in advance of that event.

Therefore, having considered the evidence submitted in support of this proposal, and while having considerable sympathy with the persons who have invested in this company and who have not received a normal return on such investment, the Commission cannot agree that the recovery of revenue deficiencies is currently warranted. The creation of the account proposed by the Company is therefore not approved.

6. RATE OF RETURN AND RATE EQUALIZATION/STABILIZATION ACCOUNT

In view of the losses shown by the Applicant as adjusted by the Commission, and the Commission's decision on the Rate Equalization/Stabilization Account, the matter of the level of the rate of return is not relevant in these proceedings.

7. DECISION ON RATE REQUEST

From evidence presented as to comparative energy costs and the Applicant's competitive position in its service area, it appears evident that the rates applied for are at a level which would not permit further increases without the risk of loss of business with its resultant adverse effects.

After giving due consideration to the application, supporting testimony and all interventions, the Commission has determined that the Applicant's request for rate relief shall be granted in full effective with consumption on and after October 1, 1980, and the previously granted interim rates are confirmed.

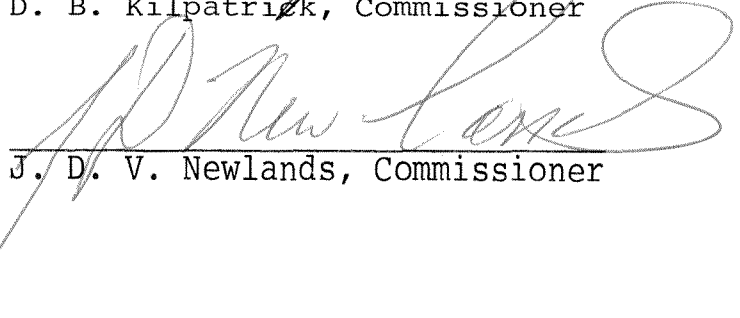
DATED at the City of Vancouver, in the Province of British Columbia, this 10th day of September, 1980.



R. Smith, Deputy Chairman



D. B. Kilpatrick, Commissioner


J. D. V. Newlands, Commissioner

SCHEDULE IVANCOUVER ISLAND GAS COMPANY LTD.Schedule of Mean Depreciated Rate Base

	<u>As Reported per Application</u>	<u>Commission Staff Adjustments</u>	<u>Final Balance</u>
Mean Depreciated Plant in Service	\$ 1,213,087		\$ 1,213,087
Other (Mean):			
- Organization Costs	34,442		34,442
- Leak Investigation and Repair Costs	39,569		39,569
- Customer Contributions	<u>(29,572)</u>		<u>(29,572)</u>
	1,257,526		1,257,526
<u>Add: Allowance for Working Capital (Schedule II)</u>	<u>47,900</u>	<u>\$ 3,280</u>	<u>51,180</u>
	<u>\$ 1,305,426</u>	<u>\$ 3,280</u>	<u>\$ 1,308,706</u>

SCHEDULE IIVANCOUVER ISLAND GAS COMPANY LTD.Schedule of Working Capital Allowance

	<u>As Reported per Application</u>	<u>Commission Staff Adjustments</u>	<u>Final Balance</u>
Investment in cash operating expenses	\$ 4,300	a) \$ 1,630	\$ 5,930
Mean Supplies Inventories	32,200		32,200
Average Propane Inventories	32,000	b) 1,650	33,650
Less: Customer Deposits	<u>(20,600)</u>	<u></u>	<u>(20,600)</u>
Allowance for Working Capital	<u>\$ 47,900</u>	<u>\$ 3,280</u>	<u>\$ 51,180</u>

VANCOUVER ISLAND GAS COMPANY LTD.

Notes to Schedule II

- a) To increase investment in cash operating expenses for adjustments per Schedule III.
- b) To adjust average butane inventories per Application to a propane basis.

SCHEDULE IIIVANCOUVER ISLAND GAS COMPANY LTD.Normalized Statement of Utility Income and Earned Return

<u>REVENUES</u>	<u>As Reported per Application</u>	<u>Commission Staff Adjustments</u>	<u>Final Balance</u>
Sales of Gas	\$ 1,156,100	a) \$ 30,019 b) 32,091	\$ 1,218,210
Appliance Sales and Installation	40,200		40,200
Management Fees	43,000		43,000
Other	4,900		4,900
Total	1,244,200	62,110	1,306,310
<u>OPERATING EXPENSES</u>			
Gas Purchases	811,900	a) 23,156 b) 21,819	856,875
Appliance and Installation Costs	25,200		25,200
Depreciation	37,900		37,900
Other Operating	486,700	b) 880 c) 17,536	505,116
Total	1,361,700	63,391	1,425,091
Utility Loss	\$ 117,500	\$ 1,281	\$ 118,781
Utility Rate Base	\$ 1,305,426	\$ 3,280	\$ 1,308,706
Negative rate of return on Rate Base	9.00 %		9.08%

VANCOUVER ISLAND GAS COMPANY LTD.

Notes to Schedule III

- a) To normalize revenues and cost of gas for the effect of warmer than normal temperatures, which prevailed during 1979.
- b) To include mean normalized revenues and related expenses from the new Country Club Shopping Centre Extension.
- c) To annualize salary costs for increases which came into effect as at July 1, 1979.



BRITISH COLUMBIA
ENERGY COMMISSION

ORDER
NUMBER G-54-80

PROVINCE OF BRITISH COLUMBIA
BRITISH COLUMBIA ENERGY COMMISSION

IN THE MATTER OF the Energy Act,
RSBC 1979, c. 108

and

IN THE MATTER OF an Application by
Vancouver Island Gas Company Ltd.

BEFORE: R. Smith,)
Deputy Chairman;)
D. B. Kilpatrick,) September 10, 1980
Commissioner; and)
J. D. V. Newlands,)
Commissioner)

O R D E R

WHEREAS Vancouver Island Gas Company Ltd.
("Vigas") applied November 22, 1979 to amend its filed tariffs
concerning interim rates to be charged for butane gas service
in its service area; and

WHEREAS Commission Order No. G-46-79, dated
November 30, 1979 authorized an interim increase in rates
effective November 1, 1979 in the amount of 11.61 cents per
Ccf applicable to all customers; and

WHEREAS the interim increase was declared subject
to refund with interest at 9% per annum and Vigas was directed
to file prior to February 29, 1980 an Application for
permanent rate relief; and

WHEREAS Vigas was granted an extension to March 14,
1980 of the required filing date and subsequently applied
March 12, 1980 for increased rates, which application was
later requested for deferral which was granted; and

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BRITISH COLUMBIA
ENERGY COMMISSION

ORDER
NUMBER G-54-80

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WHEREAS Vigas applied May 5, 1980 for approval of a plan to permit the modification of its plant, permitting the use of either propane or butane, or a blend thereof and requested confirmation of existing rates plus a further increase of 1.14 cents per Ccf for Residential Service and 1.38 cents per Ccf for Commercial Service, applicable to consumption of gas on and after June 1, 1980; and

WHEREAS Commission Order No. G-32-80, dated May 30, 1980 permitted Vigas to substitute propane for butane and accepted for filing effective June 1, 1980 Rate Schedules amended to reflect the reduction in calorific value of the gas from the 1200 Btu/Ccf to 1145 Btu/Ccf; and

WHEREAS Commission Order No. G-35-80 set down the Application for public hearing at Nanaimo commencing July 30, 1980; and

WHEREAS the Commission has fully considered the evidence adduced at the public hearing of the Application and finds that Vancouver Island Gas Company Ltd. has justified as necessary the interim increases in rates authorized by Commission Orders No. G-46-79 and G-32-80, and is issuing a Decision concurrently with this Order.

NOW THEREFORE the Commission hereby orders Vancouver Island Gas Company Ltd. as follows:

1. The interim rates authorized by Commission Orders No. G-46-79 and G-32-80 are hereby confirmed.
2. The mean depreciated rate base for the test period is \$1,308,706.

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BRITISH COLUMBIA
ENERGY COMMISSION

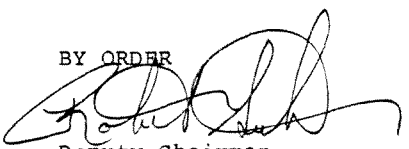
ORDER
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3. The request for establishment of a "Rate Equalization/Stabilization Account" is rejected.
4. Vigas is put on notice that the situation pertaining to "unaccounted for gas" requires action.
5. Authorization is granted for an increase in rates in accordance with the Application dated May 5, 1980 with such increased rates to be applicable to consumption of gas on or after October 1, 1980, subject to timely filing of the amended Tariff Rate Schedules.

DATED at the City of Vancouver, in the Province
of British Columbia this 10TH day of September, 1980.

BY ORDER


Deputy Chairman