

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

and

IN THE MATTER OF
an Application for Rate Relief by
ICG Utilities (Plains-Western) Ltd.,
Fort St. John District

DECISION

December 5, 1983

Before:

M. Taylor, Chairman;
J.D.V. Newlands, Deputy Chairman; and
N. Martin, Commissioner

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LIST OF APPEARANCES

R.B. WALLACE	Counsel for the Applicant
DR. G. TIMMINS	Representing the Fort St. John General Hospital
R.J. GIBBS	Commission Counsel



R.J. FLETCHER J. GREINER D. MacINNIS	Commission Staff
W.R. HARPER	Hearing Officer
ALLWEST REPORTING LTD.	Court Reporter

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The Application dated November 24, 1982 of ICG Utilities (Plains-Western) Ltd., Fort St. John District, to amend its filed tariffs was heard on May 3, 4, and 5, 1983 in Fort St. John, British Columbia and in Vancouver, British Columbia on July 20 and August 15, 1983.

The Division of the Commission was comprised of M. Taylor, Chairman; J.D.V. Newlands, Deputy Chairman; and N. Martin, Commissioner.

I. INTRODUCTION

ICG Utilities (Plains-Western) Ltd., Fort St. John District (the "Applicant") operates a transmission and distribution system providing natural gas service to the communities of Fort St. John, Taylor, and Charlie Lake and in the surrounding area under appropriate Certificates of Public Convenience and Necessity.

The Applicant operates as a division of ICG Utilities (Plains-Western) Ltd. which company also operates divisions in Alberta and the Northwest Territories. ICG Utilities (Plains-Western) Ltd. is a wholly-owned subsidiary of ICG Utilities Ltd. which in turn is wholly-owned by Inter-City Gas Corporation of Winnipeg.

This Decision deals with Applications dated November 24, 1982 for rate relief of 25.7¢ per Mcf which was requested to be effective December 1, 1982 and 20.5¢ per Mcf similarly requested to be effective January 1, 1983 for all customers except Scurry-Rainbow Oil Limited ("Scurry-Rainbow"), for which an increase of 16.4¢ per Mcf was requested effective December 1, 1982.

The Commission by Order No. G-90-82 dated December 20, 1982 authorized a 23.1¢ per Mcf interim increase for all customers excepting Scurry-Rainbow, for which a 16.4¢ per Mcf interim increase was granted, both effective January 1, 1983. The Scurry-Rainbow rate is structured in accordance with a letter of agreement dated January 7, 1981. The interim rate relief was granted subject to refund with interest at the average prime rate of the bank with which the Applicant conducts its business.

Order No. G-90-82 stated that further interim rate adjustments may be made by further Commission Order. Upon consideration and by Order No. G-14-83 dated February 23, 1983, the Commission re-stated the interims awarded in Order No. G-90-82, and set the Application down for public hearing on May 3, 1983 in Fort St. John.

The Applicant applied on March 18, 1983 pursuant to Section 114 of the Act, requesting the Commission to reconsider, vary or rescind Commission Order No. G-14-83. By Order No. G-20-83 dated March 25, 1983 the Commission ordered an immediate further interim increase of 20¢ per Mcf to all customers except Scurry-Rainbow bringing the total awarded interim increases to approximately 93% of the permanent relief sought.

The Applicant in presenting its case was represented by R.B. Callow, Vice-President and General Manager, as policy witness, supported by D.G. Olsen, General Manager of ICG Utilities (British Columbia) Ltd. and Manager of ICG Utilities (Plains-Western) Ltd., L.M. Heikkinen, Manager of Accounting and Administration and Assistant Treasurer, and A.W. Emmerzeal, District Supervisor, Fort St. John.

Mr. D.R. Bolster of Foster Associates, Inc. was retained by the Applicant to give evidence as to financial markets and rate of return.

II. TEST PERIOD

The Application is based on a forecast test year ending December 31, 1983, being the Applicant's fiscal year.

III. RATE BASE

Tumbler Ridge Costs

ICG Utilities (Plains-Western) Ltd. spent \$350,502 on behalf of an application by ICG Utilities (British Columbia) Ltd. to serve Tumbler Ridge. The Applicant proposed to include the costs in Rate Base and to amortize the amount over 10 years commencing in 1983.

In the Tumbler Ridge Decision of April 1, 1982 the Commission stated that the appropriate disposition of hearing costs would be considered at the next rate proceeding of each utility involved in that Application.

After full consideration of the evidence the Commission concludes it is not prepared to accept the recovery of such costs from the customers of the Applicant's system. By allowing utilities to recover all costs associated with such applications, regardless of outcome, the Commission would shield the shareholders from any risk and simply pass the burden to the consumers. The Commission has concluded that such costs are properly the risk of shareholders and will exclude the Tumbler Ridge hearing costs of \$350,502 from rate base and cost of service.

System Development Costs

Included in Rate Base is an amount of \$102,250 for the development of computer systems. While accepting this expenditure the Commission expects to be advised of significant expenditures planned by related companies, the costs of which will be allocated to the Applicant.

IV. REVENUE AND EXPENSES

Revenues

The Applicant put forward a fiscal 1983 sales volume forecast of 2,157,958 Mcf which the Commission has accepted for the purpose of setting the 1983 rates. The major uncertainty remains the likely level of gas sales to Scurry-Rainbow, the major industrial customer. The Applicant has forecast a sales volume and cost of gas at a level equivalent to the minimum take-or-pay, there being no make-up provision. The Commission however will take no action because under the purchase agreement Scurry-Rainbow is only liable for the margin for gas not taken below the take-or-pay level.

Expenses

With minor adjustment, forecast operation, maintenance and general costs have been accepted by the Commission. Although these costs have increased 47.4% from 1981 to 1983 the Applicant demonstrated to the satisfaction of the Commission that the large part of the increase in costs was due to a "catch-up" award to employees that was not excessive by industry standards. It is also recognized that the 2 year award was made before economic activity took a significant downturn.

With respect to the future the Commission will continue to monitor operating expenses including payroll and make disallowances where the Applicant cannot demonstrate prudence.

Operating, maintenance and administrative statistics for the years 1981 to 1983 are summarized in Appendix A.

V. CAPITAL STRUCTURE AND COST OF CAPITAL

The Applicant operates as a division of ICG Utilities (Plains-Western) Ltd., which company is regulated on a 60%/40% debt/equity structure although its actual equity is approximately 15%.

With respect to the Fort St. John Division, the Applicant put forward a notional capital structure of 58.16% debt, 3.07% deferred taxes and 38.77% equity. With deferred taxes deducted from Rate Base the proposed notional debt and equity components equal 60% and 40% respectively.

With deferred taxes also deducted from the Rate Base the proposed capital structure compares to a 63%/37% debt/equity structure per the Commission Decision of January 22, 1982. The Commission concludes that there has been no significant change in the business or financial risks to the Applicant that would justify a change from that structure.

With respect to cost of debt, the Commission accepts the notional cost of debt at 13.61%, the amended rate recommended by the Applicant's rate of return witness.

With respect to return on equity the Commission has considered the evidence presented, the business and financial risk of ICG, the approved notional capital structure and equity component and accordingly for the purposes of determining the Applicant's revenue requirement a range between 15.26 and 16% was considered and a rate of return on common equity of 15.5% has been used.

The Commission is concerned, however with the continued use of notional capital structures for regulatory purposes and the computation of income taxes based upon "notional" equity balances, producing "notional" costs. When the Applicant next makes application for general rate relief, consideration will be given to a change of method.

VI. INTERVENTION OF FORT ST. JOHN GENERAL HOSPITAL

Dr. G. Timmins, appeared on behalf of the Fort St. John General Hospital. His intervention told of budgetary restraints that, given increases in operating costs, including that of natural gas, can only result in reduced services to patients.

The Commission thanks Dr. Timmins for his well-presented testimony and echoes his concern that utilities must minimize rate increases through the use of sound business practices. At the hearing the Applicant offered to examine the equipment and premises of the Hospital, with a view to enhancing conservation. The Commission hopes that the examination will provide opportunities for substantial savings.

VII. MAINS EXTENSION POLICY

From 1981 to 1983, the Applicant's rate base increased by 39%, while in the same period, sales volume grew by only 21%. This results in only approximately half the additional return, higher depreciation expense and other costs associated with a larger rate base being recovered through new sales. The rest can be recouped only by raising the tariffs of all existing customers.

Certain projects under the Gas Extension Assistance Program (G.E.A.P.) and other projects were examined on an individual basis and financial evaluations were filed as Exhibit 21. Return on equity during 1982 was 4% for the G.E.A.P. projects and a negative 1.3% for other projects. The Applicant's forecast return on equity for the completed projects was 18% and 6% respectively.

The Commission's view is that the construction of uneconomic extensions has been a major cause of utility induced rate increases over the last two years. While it is the responsibility of the Applicant to make natural gas available in the service area to the extent practicable, this should be carried out in a manner which will not unduly burden existing users of the system.

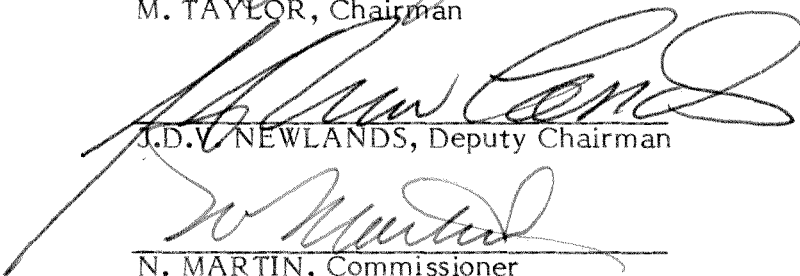
The Commission has also taken a critical view of the Applicant's ability to forecast accurately the net revenue stream arising out of each project. The Commission will continue to monitor this problem.

VIII. RATES

The Commission confirms the respective interim increases as the just and reasonable rates for the Applicant. These rates will generate revenue on an annualized basis of approximately \$7.3 million.

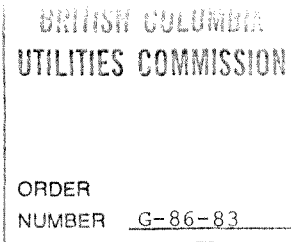
DATED at the City of Vancouver, in the Province of British Columbia this ~~5th~~ day of December, 1983.



M. TAYLOR, Chairman

J.D.V. NEWLANDS, Deputy Chairman

N. MARTIN, Commissioner



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
ICG Utilities (Plains-Western) Ltd.

BEFORE: M. Taylor,)
Chairman;)
J.D.V. Newlands,) December 5, 1983
Deputy Chairman; and)
N. Martin,)
Commissioner)

O R D E R

WHEREAS a public hearing pertaining to ICG Utilities (Plains-Western) Ltd. ("ICG") commenced before this Commission at Fort St. John, B.C. on Tuesday, May 3, 1983 to hear, inter alia, an Application dated November 24, 1982 for interim increases to its filed Tariff Rate Schedules effective December 1, 1982 and January 1, 1983 respectively.

WHEREAS the Commission authorized a 23.1 cents/Mcf interim general rate increase effective January 1, 1983 and a further 20 cents/Mcf interim general rate increase effective March 25, 1983, with both interim increases subject to refund; and

WHEREAS the Commission has considered the Application and the evidence adduced thereon, all as set forth in a Decision issued concurrently with this Order.

.../2

NOW THEREFORE the Commission hereby orders ICG
Utilities (Plains-Western) Ltd. as follows:

1. The interim rates currently in effect as authorized by Commission Orders No. G-90-82, effective January 1, 1983; and G-20-83, effective March 25, 1983 are hereby confirmed as firm increases.
2. The Rate Base for the Test Year ending December 31, 1983 is approximately \$5,900,000.
3. The total Revenue Requirement for the Test Year ending December 31, 1983 is approximately \$7,300,000.
4. The Commission directs ICG to file revised Tariff Rate Schedules to reflect the rates resulting from the December 5, 1983 Commission Decision. The amended Tariff Rate Schedules will allow ICG an opportunity to earn a rate of return on common share equity of 15.5%.

DATED at the City of Vancouver, in the Province
of British Columbia, this 11th day of December, 1983.

BY ORDER


Chairman

ICG UTILITIES (PLAINS-WESTERN) LTD.
FORT ST. JOHN DISTRICT
Utility Rate Base - 1983 Forecast

SCHEDULE I

	<u>Final Application Exhibit 16</u>	<u>Commission Adjustments</u>	<u>Final Adjusted Balance</u>
Gross Plant in Service, Beginning of Year	\$ 7,143,795	\$ -	\$7,143,795
Accumulated Depreciation, Beginning of Year	<u>919,960</u>	<u>-</u>	<u>919,960</u>
Net Plant in Service, Beginning of Year	<u>6,223,835</u>	<u>-</u>	<u>6,223,835</u>
Gross Plant in Service, End of Year	8,052,195	-	8,052,195
Accumulated Depreciation, End of Year	<u>1,122,587</u>	<u>-</u>	<u>1,122,587</u>
Net Plant in Service, End of Year	<u>6,929,608</u>	<u>-</u>	<u>6,929,608</u>
Net Plant in Service, Mid-Year	<u>6,576,721</u>	<u>-</u>	<u>6,576,721</u>
Head Office Average Net Plant Allocation	399,856	-	399,856
Less: Customer Contributions Mid-Year	<u>1,262,464</u>	<u>-</u>	<u>1,262,464</u>
Total Net Plant in Service, Mid-Year	<u>5,714,113</u>	<u>-</u>	<u>5,714,113</u>
<u>Working Capital</u>			
Cash Expenses	113,810	-	113,810
Inventory, Mid-Year	182,100	-	182,100
Prepaid Expenses, Mid-Year	3,300	-	3,300
Unamortized Rate Hearing Costs, Mid-Year	44,597	5,315 (a)	49,912
Deferred System Development Costs, Mid-Year	102,250	-	102,250
Deferred Expansion Costs, Mid-Year	332,977	(332,977) (b)	-
Customer Deposits, Mid-Year	<u>(121,000)</u>	<u>-</u>	<u>(121,000)</u>
Total Working Capital	<u>658,034</u>	<u>(327,662)</u>	<u>330,372</u>
Less Deferred Taxes	<u>-</u>	<u>(196,400)</u>	<u>(196,400)</u>
Total Rate Base	<u>\$ 6,372,147</u>	<u>\$ (524,062)</u>	<u>\$5,848,085</u>

(a) To reflect actual hearing costs.

(b) To remove Tumbler Ridge costs.

ICG UTILITIES (PLAINS-WESTERN) LTD.
FORT ST. JOHN DISTRICT

Forecast Utility Income and Earned Return
for the year ending December 31, 1983

	Final Application Exhibit 16	Commission Adjustments	Final Adjusted Balance
Gas sales volume (Mcf)	<u>2,157,958</u>	<u>-</u>	<u>2,157,958</u>
Revenue Requirement	<u>\$7,177,133</u>	<u>\$ (94,086) (a)</u>	<u>\$7,271,219</u>
<u>Expenses</u>			
Cost of gas	4,956,200		4,956,200
Operating and Maintenance	957,000	(1,400) (b)	
		10,628 (c)	
		4,986 (d)	971,214
Municipal taxes	168,700	-	168,700
Amortization	44,400	(35,100) (e)	9,300
Depreciation	198,800	-	198,800
Other utility revenue	<u>(50,900)</u>	<u>-</u>	<u>(50,900)</u>
Total expenses	<u>6,274,200</u>	<u>(20,886)</u>	<u>6,253,314</u>
Net utility income before taxes	<u>902,933</u>	<u>114,972</u>	<u>1,017,905</u>
Deduct income taxes (Sch. III)	<u>-</u>	<u>181,044</u>	<u>181,044</u>
Earned return	<u>\$ 902,933</u>	<u>\$ (66,072)</u>	<u>\$ 836,861</u>
Utility Rate Base (per Schedule I)	<u>\$6,372,147</u>	<u>\$(524,062)</u>	<u>\$5,848,085</u>
Rate of Return on Depreciated Rate Base	<u>14.17%</u>		<u>14.31%</u>

(a) Final adjustment resulting from the Decision.

(b) To adjust for related costs.

(c) To reflect actual hearing costs.

(d) Adjustments which were not carried forward from Exhibit 4A re write-off of rate hearing costs.

(e) Deletion of amortization of Tumbler Ridge costs.

SCHEDULE III

ICG UTILITIES (PLAINS-WESTERN) LTD.
FORT ST. JOHN DISTRICT

Income Taxes on Utility Income
for the year ending December 31, 1983

	<u>Final Application Exhibit 16</u>	<u>Commission Adjustments</u>	<u>Final Adjusted Balance</u>
Net utility income (per Schedule II)	\$902,933	\$(66,072) (a)	\$ 836,861
Deduct: Interest expense	<u>507,860</u>	<u>(6,679)</u>	<u>501,181</u> (b)
Net income before timing differences	<u>395,073</u>	<u>(59,393)</u>	<u>335,680</u>
Add:			
Depreciation	198,800	-	198,800
Amortization	44,400	(35,100) (c)	9,300
Write-off Rate Hearing Costs	35,200	4,986 (d)	
		<u>10,628</u> (e)	<u>50,814</u>
	<u>278,400</u>	<u>(19,486)</u>	<u>258,914</u>
Deduct:			
Capital Cost Allowance	248,679	30,321 (c)	279,000
System Development Costs	9,300	-	9,300
Expansion Costs	280,394	(280,394) (c)	-
Rate Hearing Costs	34,400	10,000 (d)	44,400
Overhead Capitalized	<u>100,700</u>	<u>-</u>	<u>100,700</u>
	<u>673,473</u>	<u>(240,073)</u>	<u>433,400</u>
Taxable Income after Tax	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 161,194</u>
Income Tax Expense	<u>\$ -</u>		<u>\$ 181,044</u>
Taxable Income before Tax	<u>\$ -</u>		<u>\$ 342,238</u>

(a) Resulting from adjustments (b), (c), (d) and (e).

(b) Debt portion of rate base: \$5,848,085 x 8.57% = \$501,181

(c) Exclusion of Tumbler Ridge costs.

(d) Adjustments which were not carried forward from Exhibit 4A.

(e) Reflecting actual hearing costs.

SCHEDULE IV

ICG UTILITIES (PLAINS-WESTERN) LTD.
FORT ST JOHN DISTRICT

Return on Capital
for the year ending December 31, 1983

Per Final Application, Exhibit 16

	<u>Rate Base</u>	<u>Percentage</u>	<u>Cost Rate</u>	<u>Weighted Average</u>
Debt	\$3,728,368	58.16	13.70	7.97
Deferred Taxes	196,400	3.07	0.00	0.00
Common Equity	<u>2,485,579</u>	<u>38.77</u>	16.00	<u>6.20</u>
Total	<u>\$6,410,347</u>	<u>100.00</u>		<u>14.17</u>

Per Decision

	<u>Rate Base</u>	<u>Percentage</u>	<u>Cost Rate</u>	<u>Weighted Average</u>
Debt	\$3,684,294	63.0	13.61	8.57
Common Equity	<u>2,163,791</u>	<u>37.0</u>	15.50	<u>5.74</u>
Total	<u>\$5,848,085</u>	<u>100.00</u>		<u>14.31</u>

ICG UTILITIES (PLAINS-WESTERN) LTD.
FORT ST. JOHN DISTRICT

Operating, Maintenance and Administrative Expenses

	1981	1982	1983	Increase 1981-1982		Increase 1982-1983	
	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Exhibit 3C, Tab 8, Page 8.01-01 - Total Operating Expenses	\$130,300	\$170,300	\$199,900	\$ 40,000	31%	\$ 29,600	17%
Cost per Customer	<u>\$23.22</u>	<u>\$28.74</u>	<u>\$32.44</u>	<u>\$5.52</u>	<u>24%</u>	<u>\$3.70</u>	<u>13%</u>
Exhibit 3C, Tab 8, Page 8.03.01 - Total Maintenance Expenses	\$ 47,200	\$ 78,300	\$ 91,800	\$ 31,100	66%	\$ 13,500	17%
Cost per Customer	<u>\$8.41</u>	<u>\$13.22</u>	<u>\$14.90</u>	<u>\$4.80</u>	<u>57%</u>	<u>\$1.68</u>	<u>13%</u>
Exhibit 3C, Tab 8, Page 8.05.01 - Total Administrative Expenses	\$461,000	\$555,300	\$654,300	\$ 94,300	20%	\$ 99,000	18%
Cost per Customer	<u>\$82.16</u>	<u>\$93.72</u>	<u>\$106.18</u>	<u>\$11.56</u>	<u>14%</u>	<u>\$12.46</u>	<u>13%</u>
Total Expenses	\$638,500	\$803,900	\$946,000	\$165,400	26%	\$142,100	18%
Cost per Customer	<u>\$113.79</u>	<u>\$135.68</u>	<u>\$153.52</u>	<u>\$21.88</u>	<u>19%</u>	<u>\$17.84</u>	<u>13%</u>

DOCUMENT SUMMARY

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