ICG (Plains-Western) Ltd. Rates February 10, 1984

CAARS

I. INTRODUCTION

ICG Utilities (Plains-Western) Ltd. ("Plains-Western") is a subsidiary of ICG Utilities Ltd. of Winnipeg, itself a subsidiary of InterCity Gas Corporation. Plains-Western distributes natural gas in numerous Alberta communities as well as electricity in Yellowknife. It is the Fort St. John division which has applied for an increase in its rates.

ICG Utilities (British Columbia) Ltd. ("ICG (B.C.)") serves the town of Port Alice on Vancouver Island with propane through its underground distribution system. It is also a subsidiary of ICG Utilities Ltd.

By letter dated December 8, 1983, Plains-Western applied to the Commission for approval of the sale of its Fort St. John assets to ICG (B.C.) with the intention of eliminating multijurisdictional operations. The Commission approved this sale by Order No. G-2-84 dated January 12, 1984.

The current Rate Application rolled-in the Fort St. John and Port Alice operations under the name of ICG Utilities (British Columbia) Ltd. As the sale of assets had not yet taken place, and as the Port Alice tariffs were not to be increased, the Applicant amended the request by letter dated December 16, 1983 to show that Plains-Western had applied for the rate increase. The financial aspects of both entities are shown separately in the Application.

The November 30, 1983 Application requested an increase in rates of 17.8¢/Mcf for Fort St. John Residential, Commercial and Industrial customers and a 24.4¢/Mcf increase in rates for Special Contract customers Scurry Rainbow, Petro Canada and Westcoast Petroleums Ltd. The Commission approved the increase on an interim basis subject to refund with interest effective January 1, 1984 by Order No. G-88-83 dated December 28, 1983 and set down the Application for hearing in Fort St. John on January 24, 1984.

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The Applicant, on January 24, 1984, requested that the special contract rate increase of 24.4¢/Mcf, which had not been billed, be reduced to 17.8¢/Mcf. The request was granted and authorized by Order No. G-6-84.

On December 5, 1983 the Commission issued its decision with regard to an earlier Application and as a result the Applicant revised the current Application to reflect certain changes. The revisions are as follows:

1. Tumbler Ridge hearing costs were excluded from Rate Base and Amortization expense.

2. Rate Hearing costs were increased to reflect the costs of the proceeding.

3. Deferred taxes were deducted from Rate Base.

4. Income taxes were increased to reflect the exclusion of Tumbler Ridge costs.

5. Embedded cost of debt was revised in accordance with Order No. G-86-83.

These changes increased the revenue requirements and the Company has requested a further increase in rates of 2.6¢/Mcf effective February 1, 1984.

During the course of the hearing in Fort St. John the Commission heard evidence from both the City and the Fort St. John Hospital in opposition to the increased charges. The position of the City was supported by the Village of Taylor. The City and the surrounding area including the hospital are experiencing difficult economic conditions at the present time. There is a high unemployment rate in the order of 20% and a significant decline in population.

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The hospital has restrictions on funding in the face of increased costs and a significant and rising cost of energy in part caused by an insufficiently insulated building. The correction of the heat loss in the building, which apparently will "pay for itself" in a short time, cannot be undertaken because of a lack of capital.

The economic circumstances have affected the Utility through a reduction in the number of new urban customers, an increase in bad debts, an increase in abandoned services, an increase in "locked off" meters from 131 in 1981 to 405 in 1983 and an increase in customer turnover rate to 7,139. This turnover rate results primarily from customers disconnecting at the end of the heating season and reconnecting in the fall.

The above circumstances have also adversely affected the utility's shareholders during the past two years. 1982 earnings were insufficient to cover interest costs with the return on equity in 1983 projected to be approximately 9.5%, substantially short of the 15.5% determined by the Commission to be just and reasonable.

On the optimistic side the significant attrition which has taken place has established a new "base" from which both City and the Utility can look forward to improvement.

II. TEST PERIOD

The test period used by the Applicant was predicated upon seven months actual and five months forecast for 1983 and 12 months forecast for 1984. The relief sought was for the year ending December 31, 1984.

This Application differs from previous Applications as the Applicant has included Port Alice operations and seeks to recover a revenue deficiency arising from those operations from customers in Fort St. John. The rates sought for both locations are predicated on a "value of service" concept rather than adhering to cost of service. There was some discussion of the merits of utilizing a cost of service study to redesign rates.

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The Commission does not consider a cost of service study to be appropriate at this time, particularly in view of the cost which would be incurred, for results which would likely be unattainable in the market place. The Commission does believe that if hearing costs are to be minimized a relationship must exist between providing the service and the cost incurred in so doing.

With regard to the integration of Port Alice the Commission does not object to this concept in principle as it effectively exists in larger utilities and some savings in administrative costs can be achieved. As with the integrated systems, some communities provide returns higher than others at a given time and without specific identification of costs. However, with regard to Port Alice, the Applicant did not quantify the benefits of integration nor was the evidence clear with regard to the extent of the integration proposed.

The Commission can see merit in integrating the cost of service excluding cost of product but has difficulty with a proposal which, in the matter at hand, would subject consumers in one community to increases associated with rising prices in the base energy costs in the other community.

On the basis of the evidence presented the Commission cannot accept the integration of the Port Alice operations into those of Fort St. John at the present time.

III. <u>RATE BASE</u>

The Applicant's rate base (Fort St. John) has grown significantly in the last few years, from approximately $4.4 million in mid-1981 to an estimated $5.9 million in mid-1984. The growth is primarily due to extensions of gas service to rural areas, assisted by provincial and federal grants, and to a lesser extent, to "system betterment".

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The evidence indicates that to some extent the expansion, at least in the short term, has resulted in higher rates to the existing customers. This effect is particularly onerous in difficult economic circumstances and the Commission suggests that consideration should be given to delaying marginal extensions until the economy has improved.

The Commission has accepted the capital program as proposed by the Applicant but would encourage the Applicant to further review its capital program to minimize the impact on the existing rate payers, particularly at this time when the economy of the region has not yet recovered from the recession.

The Applicant's extension program should be reviewed at the next proceeding with consideration being given to a revenue test on extensions so that the burden on the existing customers can be mitigated. The alternative of higher rates for rural customers more adequately reflecting costs should also be considered.

The Applicant proposes an investment of $75,000 to improve the integrity of the service lines in the community of Port Alice. The purpose is to correct and prevent further corrosion in the copper service lines by bonding the service lines to the main line, insulating the meter sets and installing magnesium anodes as necessary.

This is a very significant investment in a small utility operation with a rate base of approximately $160,000, and must be fully justified as necessary to maintain service reliability and safety. It might be more in the interest of the consumer and the utility to consider other options which might be available to provide service to customers.

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Perhaps "bottled propane" could be introduced into the system and the main and services bypassed and abandoned. Certainly the utility has an obligation to maintain service; however, it does appear to the Commission that very serious consideration should be given to options in the provision of service before an investment of $75,000 is made. The community is not growing and is largely dependent on the continued operation of the Western Forest Products pulp mill.

IV. COST OF SERVICE EXCLUDING RETURN

The Commission has considered the estimated cost put forward by the Applicant and is concerned with regard to the magnitude of certain of the estimated costs. The Commission has not made any adjustments other than to cost of hearings but would request the Applicant to review these costs again.

With regard to the costs of hearings and especially the accumulated cost thereof, the Commission believes that certain of the costs represent extraordinary circumstances and hence has adopted a three-year amortization period.

V. CAPITAL STRUCTURE AND COST OF CAPITAL

The Applicant gave evidence that an overall rate of return of 14.58% on a 1984 mid-year rate base is required, 60% of which is assumed to be financed by debt at a cost of 13.63% and 40% is deemed to be financed by equity at a rate of 16%.

The Applicant's financial evidence was predicated on the assumption that Fort St. John was a "stand alone" utility and hence carries greater financial risks and would require a thicker equity component than a larger operation.

In view of the fact that during 1984 it is anticipated that the Applicant will move from a deemed capital structure to an actual capital structure, the Commission will accept the imputed debt cost of 13.63%.

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With regard to the cost of equity the Applicant's witness recommended that a rate of return on common equity in the range of 15.5% to 16.5% would not be unjust or unreasonable and recommended that the rate of return be set at 16%.

In the two most recent Decisions of January 22, 1982 and December 5, 1983, the Commission approved a rate of return on common equity of 15.5%, and in the December 5, 1983 Decision a range of 15.26% to 16%. These rates of return on equity assumed a 37% equity component.

In the current matter the Commission will continue to utilize a 37% equity component and a return on equity of 15.5%. The range approved in the most recent decision is also adopted.

Consideration was given to reducing the rate of return from 15.5% to reflect the reduced financial risk brought about by the diminution of the customer base. However, in view of the recent less than satisfactory earnings record, this adjustment has not been made.

VI. RATES

The Commission has fully considered the Application and the rates proposed by the Applicant as well as the evidence given by the City of Fort St. John and the Fort St. John General Hospital. The Commission has also considered the argument by the Applicant's Counsel.

It appears that the larger customers in the General Service category may be paying a rate substantially in excess of the cost of providing the service.

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As a partial measure in mitigating this problem, the Commission believes a block structure should be incorporated in the "General Service" class by the creation of two additional blocks to allow for lower unit rates for customers using in excess of approximately l0,000 Mcf/year and 20,000 Mcf/year respectively.

The Applicant is directed to file revised tariff sheets, effective January 1, 1984, which will generate the gross revenue requirement of $6,849,000 as set forth in this Decision. The General Service tariff sheet should also set blocks for higher consumption which will reduce the total cost of consumption in these blocks by approximately $40,000 per year, resulting in a net revenue requirement of $6,809,000. The refunds will be subject to interest at the prime rate.

These rates will provide the Applicant the opportunity to achieve sales revenues of approximately $6.8 million in the Fort St. John service area and the concomitant return on equity of approximately l5.5%.

DATED at the City of Vancouver, in the Province of British Columbia this l0th day of February, l984.

J.D.V. NEWLANDS, Deputy Chairman

R.J. LUDGATE, Commissioner

ICG UTILITIES (PLAINS-WESTERN) LTD. SCHEDULE I

FORT ST. JOHN DIVISION

Utility Rate Base - 1984 Forecast

	Jan. 9, 1984 Application Exhibit 6	Commission Adjustments	Adjusted Balance
Gross Plant in Service, Beginning of Year	$ 7,709,395	$ -	$ 7,709,395
Accumulated Depreciation, Beginning of Year	1,081,614	-	1,081,614
Net Plant in Service, Beginning of Year	6,627,781	-	6,627,781
Gross Plant in Service, End of Year	8,963,595	-	8,963,595
Accumulated Depreciation, End of Year	1,277,149	-	1,277,149
Net Plant in Service, End of Year	7,686,446	-	7,686,446
Net Plant in Service, Mid-Year	7,157,114	-	7,157,114
Head Office Average Net Plant Allocation	336,572	-	336,572
Less: Customer Contributions Mid-Year	1,952,534	-	1,952,534
Total Net Plant in Service, Mid-Year	5,541,152	-	5,541,152
Working Capital			
Cash Expenses	206,815	b) (8,765)	198,050
Inventory, Mid-Year	112,000	-	112,000
Unamortized Rate Hearing Costs, Mid-Year	71,448	a) 6,592	78,040
Deferred System Development Costs, Mid-Year	185,200	-	185,200
Total Working Capital	575,463	(2,173)	573,290
Less Deferred Taxes	196,400	-	196,400
Total Rate Base	$ 5,920,215	$ (2,173)	$ 5,918,042

a) To reflect actual hearing costs

b) To remove effect of non-cash components

SCHEDULE II

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

Forecast Utility Income and Earned Return
for the year ending December 31, 1984

	Jan. 9, 1984 Application Exhibit 6	Commission Adjustments	Adjusted Balance
Gas sales volume (Mcf)	2,060,113	-	2,060,113
Gas Sales - permanent rates	$6,547,021	$ -	$6,547,021
- interim granted	366,700	g) (64,659)	302,041
- interim requested	53,563	f) (53,563)	-
	6,967,284	(118,222)	6,849,062
Port Alice Revenue Deficiency	(57,264)	e) 57,264	-
New block requirements	-	d) (40,000)	(40,000)
Revenue Requirement Fort St. John Division	$6,910,020	c) (100,958)	$6,809,062
Expenses			
Cost of gas	4,285,311	-	4,285,311
Operating and Maintenance	1,153,303	a) (22,249) b) (970)	1,130,084
Municipal taxes	164,155		164,155
Amortization	(729)		(729)
Depreciation	219,037		219,037
Other utility revenue	(21,900)		(21,900)
Total expenses	5,799,177	(23,219)	5,775,958
Net utility income before taxes	1,110,843	(77,739)	1,033,104
Deduct income taxes (Sch. III)	247,749	(61,517)	186,232
Earned return	$ 863,094	(16,222)	$ 846,872
Utility Rate Base (per Schedule I)	$5,920,215	$(2,173)	$5,918,042
Rate of Return on Depreciated Rate Base	14.58%		14.31%

a) To reflect actual hearing costs and three year amortization
b) To adjust for related costs
c) Final adjustment resulting from the Decision
d) Loss of revenues from creation of rate blocks in General Service class
e) Coverage of Port Alice revenue deficiency disallowed
f) Second interim not granted
g) Refund required $\frac{\$\ 64{,}659}{2{,}060{,}113} = 3.1¢/\text{Mcf}$

SCHEDULE III

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

Income Taxes on Utility Income
for the year ending December 31, 1984

	Jan. 9, 1984 Application Exhibit 6	Commission Adjustments	Adjusted Balance
Earned Return (per Schedule II)	$863,094	$ (16,222)	$846,872
Deduct: Interest expense	484,200	(23,568) b)	507,768
Net income after tax	378,894	(39,790)	339,104
Add:			
Depreciation	219,037	-	219,037
Amortization	(729)	-	(729)
Write-off Rate Hearing Costs	86,466	a) (13,235)	73,231
	304,774	(13,235)	291,539
Deduct:			
Capital Cost Allowance	277,276	-	277,276
System Development Costs	28,000	-	28,000
Rate Hearing Costs	49,200	a) (3,761)	52,961
Overhead Capitalized	100,500	-	100,500
	150,202	(16,996)	$167,198
Taxable Income after Tax	$228,692	$ (56,786)	$171,906
Taxable Income before Tax	$476,441	$	$358,138
Income Tax Expense	$247,749	$	$186,232

a) Reflecting actual hearing costs
b) Debt portion of rate base: 5,918,042 x 8.58% = $507,768

SCHEDULE IV

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

Return on Capital
for the year ending December 31, 1984

Per January 9, 1984 Application, Exhibit 6

	Rate Base	Percentage	Cost Rate	Weighted Average
Debt	$3,552,129	60.00%	13.63%	8.18%
Common Equity	2,368,086	40.00%	16.00%	6.40%
Total	$5,920,215	100.00%		14.58%

Per Decision

	Rate Base	Percentage	Cost Rate	Weighted Average
Debt	$3,728,366	63.0%	13.63	8.58%
Common Equity	2,189,676	37.0%	15.50%	5.73%
Total	$5,918,042	100.00		14.31

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 Division

<u>DECISION</u>

February 10, 1984

Before :

J.D.V. Newlands, Deputy Chairman
R.J. Ludgate, Commissioner

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LIST OF APPEARANCES

R.B. WALLACE	Counsel for the Applicant
CEDRIC WILSON	Representing the Fort St. John General Hospital
MAYOR BRIAN C. PALMER ALDERMAN LITTLE ALDERMAN TODRICK ADMINISTRATOR BLACKWELL	Representing the Council of the City of Fort St. John
G.A. FULTON	Commission Counsel

B. McKINLAY	Commission Staff
W.R. HARPER	Hearing Officer
AUDIOTRON ENTERPRISES LTD.	Court Reporter

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The November 30, 1983 Application of ICG Utilities (Plains-Western) Ltd., Fort St. John Division to amend its filed tariffs, as amended December 16, 1983 and January 9, 1984, was heard on January 24th and 25th, 1984 in Fort St. John, British Columbia.

The Division of the Commission was comprised of J.D.V. Newlands, Deputy Chairman and R.J. Ludgate, Commissioner.