

IN THE MATTER OF the Utilities  
Commission Act, SBC 1980, c. 60

and

IN THE MATTER OF an Application by  
Princeton Light and Power Company, Limited

Decision

September 22, 1981

TABLE OF CONTENTS

	<u>Page</u>
APPEARANCES . . . . .	(i)
LIST OF EXHIBITS. . . . .	(ii)
I. BACKGROUND . . . . .	1
II. DECISION . . . . .	2
ORDER	
SCHEDULES	

The Application of Princeton Light and Power Company, Limited dated April 14, 1981 for reconsideration and variance of the March 24, 1981 Commission Decision arising out of the January 21, 1981 public hearing of Princeton Light and Power's October 31, 1980 Rate Application was heard in public at Princeton, British Columbia on Friday, July 24, 1981.

The Division of the Commission which heard the Application was comprised of M. Taylor, Chairman, and J.D.V. Newlands, Commissioner.

APPEARANCES

M. MOSELEY

Commission Counsel

D.H. BELL-IRVING

For Applicant, Princeton  
Light and Power Company,  
Limited

HEARING SECRETARY

A.C. Michelson

COMMISSION STAFF

R.J. Fletcher  
W.J. Krampl

COURT REPORTER

Allwest Reporting Ltd.

LIST OF EXHIBITS

	<u>Exhibit No.</u>
Affidavit of Publication of Notice of Public Hearing	1
Annual Report to the Commission by Princeton Light and Power Company, Limited for the year ending March 31, 1981	2
Princeton Light and Power Company, Limited - Financial Statements, March 31, 1981	3
Princeton Light and Power Company, Limited - Forecast Statement of Earned Return for year ending 31 March 1982 (Exhibit A, Pages 1 through 3)	4
Princeton Light and Power Company, Limited - Forecast Statement of Earned Return for year ending 31 March 1982 (Exhibit B, Pages 1 through 3)	5
Extract from Agreement between Princeton Light and Power Company, Limited, and West Kootenay Power and Light Company, Limited pertaining to Princeton Light Purchases of Electric Power	6
Princeton Light and Power Company, Limited - Calculations re Weyerhaeuser Accounts for June, July and August, 1981	7

PRINCETON LIGHT AND POWER COMPANY, LIMITED

Decision dated September 22, 1981

I. BACKGROUND

The Rate Application of Princeton Light and Power Company, Limited ("Princeton Light and Power") dated October 31, 1980, was heard in public in Princeton, British Columbia on January 21, 1981 and decided by the Commission on March 24, 1981.

By letter dated April 14, 1981 Princeton Light and Power, pursuant to Section 114(1), applied for reconsideration and variance of the aforementioned Decision.

The Commission, by Order No. G-37-81 dated June 5, 1981, set down the Decision for reconsideration and variance to be heard in Princeton, British Columbia commencing at 9:00 a.m. on July 24, 1981.

Two days prior to the commencement of the hearing Princeton Light and Power filed additional material in support of their request which sought additional relief over and above that which was sought in the Application heard on January 21, 1981.

The Commission appreciates that from time to time circumstances require Applications to be amended. In these circumstances, however, the Commission does not believe it is in the public interest to consider additional relief over and above that originally requested, excepting an increase in the rate of interest on bank loans. Accordingly, the Commission has only considered those matters which arose as a result of the original Application.

## II. DECISION

The Commission has considered the evidence given by Mr. David Bonner, C.A., the Company's financial advisor, as well as the evidence given by Mr. Graham Gould, General Manager.

The Commission believes that circumstances have changed since the time of the initial decision, with particular regard to interest rates and the state of financial markets in general. The Commission appreciates the difficulties existing in the financial markets for all utilities and recognizes that these problems are even more difficult for small privately-owned utilities such as Princeton Light and Power.

Accordingly, the Commission has adjusted the interest rate for bank loans to 20% from the 15% allowed initially and has increased the return on equity from 16% to 17%. In addition, as shown on Notes to Schedule IV (C), common share equity is now deemed to be 40% of the capital structure, up from 35%. These adjustments increase the revenue requirement by approximately \$22,100 as shown on Schedule II (C).

In the Decision dated March 24, 1981, the Commission ordered that the difference between the deemed rate of interest on bank loans and the actual cost be recorded in a deferred rate base account. As at September 1, 1981 the rate of 20% should be used when determining the above described difference. A monthly entry should be made to record the difference.

The Applicant requested that the treatment of capitalization of overhead costs, amortization of hearing costs and contributions in aid of construction be considered by the Commission and dealt with on a basis no less favourable to the Company than the original submission made by the Applicant. After considering the arguments, the Commission has decided that the treatment of these items will not be changed from the March 24, 1981 Decision.



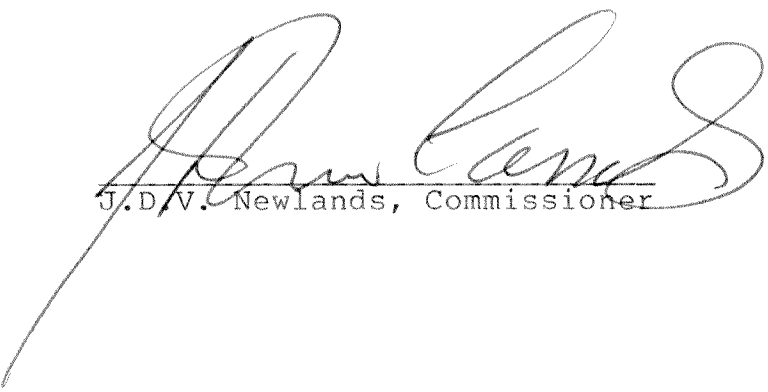
With regard to the additional relief sought over and above the initial Application the Commission would recommend the Applicant reconsider this need and if warranted would suggest an Application be made for interim relief. As part of this new Application consideration should be given to requesting a change from flow-through to normalized income tax, which would have the impact of increasing the internal generation of cash to the extent of the difference between accounting income and taxable income multiplied by the applicable income tax rate.

In closing, the Commission would observe that the Company has depressed net income in its 1981 audited statements by writing off the full amount of the rate case expense. If the three year amortization treatment as ordered in the March 24, 1981 Decision had been followed, net income for 1981 would be significantly improved.

The Commission would encourage Princeton Light and Power to take the necessary steps to reduce rate hearing costs dramatically and would be pleased to work with the Company in this regard.

DATED at the City of Vancouver, in the Province of British  
Columbia, this 22nd day of September, 1981.

  
\_\_\_\_\_  
M. Taylor, Chairman

  
\_\_\_\_\_  
J.D.V. Newlands, Commissioner

Schedule II(C)

PRINCETON LIGHT AND POWER COMPANY, LIMITED

Forecast Statement of Earned Return  
for the year ending March 31, 1982

	<u>Per Decision</u> <u>Schedule II(B)</u>		<u>Adjustments</u>	<u>Final</u> <u>Balance</u>
<u>Sales</u>				
Residential	\$ 460,117	(a)	\$ 8,259	\$ 468,376
Commercial	336,123	(a)	6,033	342,156
Industrial - primary	362,734	(a)	6,511	369,245
- secondary	60,982	(a)	1,094	62,076
Street lights	<u>13,137</u>	(a)	<u>236</u>	<u>13,373</u>
	1,233,093		22,133	1,255,226
Less discounts	<u>107,392</u>		<u>1,928</u>	<u>109,320</u>
	1,125,701		20,205	1,145,906
<u>Other Income</u>	<u>16,000</u>		<u>-</u>	<u>16,000</u>
	1,141,701		20,205	1,161,906
<u>Expenses</u>	<u>947,453</u>		<u>-</u>	<u>947,453</u>
Utility income before income taxes	194,248		20,205	214,453
Income taxes	<u>36,856</u>	(b)	<u>3,482</u>	<u>40,338</u>
<u>Earned Return</u>	<u>\$ 157,392</u>	(c)	<u>\$16,723</u>	<u>\$ 174,115</u>
<u>Depreciated</u> <u>Rate Base</u>	<u>\$1,601,135</u>			<u>\$1,601,135</u>
<u>Rate of Return</u> <u>on Rate Base</u>	<u>9.83%</u>			<u>10.87%</u>

PRINCETON LIGHT AND POWER COMPANY, LIMITED

Notes to Schedule II(C)

- (a) Pro-ration of additional revenue and adjustment to customer discounts.
- (b) Adjust income taxes to \$40,338 (see Schedule III(C)).
- (c) Adjustment required to increase earned return to \$174,115 (see Schedule IV (C)).

Schedule III(C)

PRINCETON LIGHT AND POWER COMPANY, LIMITED

Forecast Statement of Earned Return  
for the year ending March 31, 1982

	<u>Per Decision</u> <u>Schedule III(B)</u>	<u>Adjustments</u>	<u>Final</u> <u>Balance</u>
Utility income before income taxes	<u>\$194,248</u>	<u>\$20,205</u>	<u>\$214,453</u>
Add:			
-Depreciation	59,563		59,563
-Amortization of rate hearing costs	<u>19,060</u>	<u>          </u>	<u>19,060</u>
	<u>78,623</u>	<u>          </u>	<u>78,623</u>
Deduct:			
-Capital cost allowance	57,657		57,657
-Interest on long term debt	15,750		15,750
-Interest on bank loan	25,557	5,031	30,588
-Overhead capitalized	28,227		28,227
-Removal costs re plant retired	<u>1,500</u>	<u>          </u>	<u>1,500</u>
	<u>128,691</u>	<u>5,031</u>	<u>133,722</u>
<u>Taxable Income</u>	<u>\$144,180</u>	<u>\$15,174</u>	<u>\$159,354</u>

Tax thereon:

Federal:	\$159,354 @46%		\$73,303
	Less S.B.D. - 21% x \$150,000	\$31,500	
	Rebate - 10%	<u>15,935</u>	<u>47,435</u>
			25,868
	Surtax - 5% x \$25,868 x $\frac{275}{365}$		<u>974</u>
			26,842
Provincial:	\$150,000 @8%	12,000	
	9,354 @16%	<u>1,496</u>	<u>13,496</u>
			<u>\$40,338</u>

PRINCETON LIGHT AND POWER COMPANY, LIMITEDForecast Capital Structure  
for the year ending March 31, 1982

	<u>Amount</u>	<u>Capitali- zation</u>	<u>Embedded Cost</u>	<u>Cost Component</u>	<u>Return</u>
Long term debt debenture	\$ 150,000	9.37%	10.50%	.98%	\$ 15,750
Customer advances	14,746	.92%	-	-	-
Contributions in aid of construc- tion	432,994	27.04%	-	-	-
Bank loan	(b) 152,941	9.55%	(c) 20.00%	1.91%	30,588
Preferred shares 9% Class B	210,000	13.12%	9.00%	1.18%	18,900
Common share equity	(a) <u>640,454</u>	<u>40.00%</u>	(d) <u>17.00%</u>	<u>6.80%</u>	<u>108,877</u>
	<u>\$1,601,135</u>	<u>100.00%</u>		<u>10.87%</u>	<u>\$174,115</u>

PRINCETON LIGHT AND POWER COMPANY, LIMITED

Notes to Schedule IV(C)

- (a) Common share equity deemed to be 40% of capital structure.
- (b) Adjustment of bank loan to balance capital structure to rate base.
- (c) Interest on bank loan increased from 15% to 20%.
- (d) Return on common share equity increased from 16% to 17%.



G-73-81

PROVINCE OF BRITISH COLUMBIA

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF the Utilities Commission  
Act, SBC 1980, c. 60

and

IN THE MATTER OF an Application by  
Princeton Light and Power Company, Limited

BEFORE: M. Taylor, )  
Chairman; and )  
J.D.V. Newlands, ) September 22 , 1981  
Commissioner )

O R D E R

WHEREAS Princeton Light and Power Company, Limited  
("Princeton Light") applied April 14, 1981, pursuant to  
Section 114(1) of the Act, for reconsideration and variance  
of the Commission's Decision dated March 24, 1981; and

WHEREAS Commission Order No. G-37-81 assented to  
a hearing to consider the matter; and

WHEREAS a public hearing of Princeton Light's  
Application was heard at Princeton, B.C. on July 24, 1981;  
and

WHEREAS the Commission has considered the Applica-  
tion and the evidence adduced thereon and finds that due  
to changed circumstances with particular regard to the  
increased level of interest rates, an increase in the annual  
gross revenue requirement is justified, all as set forth  
in a Decision issued concurrently with this Order.

NOW THEREFORE the Commission hereby orders  
Princeton Light and Power Company, Limited as follows:

1. The rate base for Princeton Light for the test  
periods are unchanged from the Decision dated  
March 24, 1981.

...2/



G-73-81

2. The total cost of service including the return on capital employed for the test period ending March 31, 1982 is \$1,255,226.
3. The Commission will accept for filing effective with consumption on and after September 1, 1981, subject to timely filing, amended tariff rate schedules which will permit Princeton Light to generate the annual gross revenue requirement of \$1,255,226 as set out in Schedule II(C) of the Commission Decision dated September 22, 1981, augmented by .106 cents/kwh to permit recovery of the cost of increased water fees passed on by West Kootenay Power and Light Company, Limited.

DATED at the City of Vancouver, in the Province  
of British Columbia, this 22 day of September, 1981.

BY ORDER

  
Chairman