IN THE MATTER OF THE UTILITIES
COMMISSION ACT, SBC 1980, c.60

and

IN THE MATTER OF APPLICATIONS BY
NORTHLAND UTILITIES (B.C.) LIMITED

DECISION
December 4, 1981

Before J.D.V. Newlands, Division Chairman and
B.M. Sullivan, Commissioner

The Application of Northland Utilities (B.C.) Limited dated October 13, 1981 to amend its filed tariffs was heard on October 22, 1981 in Dawson Creek, British Columbia.

The division of the Commission comprised J.D.V. Newlands, Division Chairman and B.M. Sullivan, Commissioner.

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APPEARANCES

C. SANDERSON	Commission Counsel
C.K. SHEARD	for Applicant, Northland Utilities (B.C.) Limited
A.M. ANDERSON	Secretary and Treasurer, Northland Utilities (B.C.) Limited
H.R. LEWIS	Comptroller, Northland Utilities (B.C.) Limited
HEARING SECRETARY	D. Leach
COMMISSION STAFF	R.J. Fletcher J. Hague
COURT REPORTER	Allwest Reporting Limited

LIST OF EXHIBITS

I. INTRODUCTION

BACKGROUND

Northland Utilities (B.C.) Limited ("Northland"), a wholly-owned subsidiary of Northwestern Utilities, itself a wholly-owned subsidiary of Canadian Utilities, which in turn is controlled by ATCO Industries, owns and operates a natural gas utility in a service area comprised of the City of Dawson Creek, Village of Pouce Coupe, Hamlet of Rolla and areas adjacent to those communities.

Natural gas is supplied to Northland by Peace River Transmission Co. Ltd. (Peace River) a wholly-owned subsidiary of Inland Natural Gas Co. Ltd., which subsidiary is regulated by the National Energy Board.

Peace River in turn receives its natural gas from Westcoast Transmission Co. Ltd. in British columbia and transmits and resells the gas to Northland under a contract which remains in effect until January 1, 1994.

THE APPLICATION

Northland applied July 31, 1981 for interim relief and the requested relief was granted effective August 1, 1981 subject to refund with interest at the average monthly prime rate of the Applicant's principal bank.

The Application, pursuant to Commission Order No. G-68-81, was set for hearing in Dawson Creek, B.C. on October 15, 1981 and at the request of the Commission was rescheduled and heard in Dawson Creek on October 22, 1981.

No interventions were received nor has the Commission received any complaints with regard to the service provided by Northland during the period since December 18, 1979.

During the course of the hearing the question of increased economic activity associated with the Tumbler Ridge coal development arose. Although it is likely significant increased economic activity could result, the project is not likely to have a significant impact in the fiscal year ending December 31, 1982, the test period considered in this Application.

The Application contained the actual results for 1979 and 1980 with forecasts provided for 1981 and 1982.

The Applicant was represented by Mr. H.R. Lewis, Controller of Northland and Northwestern Utilities, as policy witness, supported by Mr. A. M. Anderson, Treasurer of Northland and Secretary of Canadian Utilities and Mr. J.C. Moon, Manager of Distribution for Northwestern Utilities.

RATE BASE

The application (Exhibit 1) contained data in support of the rate base for the forecast test years 1981 and 1982. The Commission has considered the material presented and accepts the estimates provided, with the exception of an adjustment with regard to the relocation of the existing metering station, an adjustment with regard to 1981 forecast additions and an adjustment to working capital to reflect the inclusion of the federal taxes as a component thereof.

The Applicant gave evidence as to the desirability of moving the existing metering station from the existing location in a residential area to a more remote location. The Commission has considered the evidence presented on this point and believes the existing station should be relocated as soon as practical in 1982 but instructs the Company to explore all opportunities for the mitigation of the costs to the customers. The Commission requires a letter stating that at least the following have been canvassed for contributions; The City of Dawson Creek and Mountroyal Estates Ltd. Apart from the operational benefits to the Company and its customers a significant land use benefit will occur to the residential property owners adjacent to the existing facility as well as the community of Dawson Creek at large. The Commission does not believe the residential customers adjacent to the station should be required to contribute but does believe the matter should be discussed with the City of Dawson Creek and other corporations that will benefit.

In addition, as to the question of the disposition of the proceeds of the sale of the existing property, the Commission has concluded that the difference between the original cost of the land and the resale value of the land for residential purposes should be credited against the cost of relocation except to the extent of losses resulting from this extraordinary retirement. Losses, if any, beyond this level should be charged to Account No. 171, "Extraordinary Plant Losses" and written off at the current depreciation rate to account number 304, "Amortization". It is the Commission's view in as much as there is uncertainty concerning the valuation of the land and the extent to which salvage may mitigate some costs no adjustment has been made to the 1982 Test Year Forecast. However, the treatment of the amounts, once known shall be in the manner described above.

A further adjustment to gas plant involves $28,000 being the short-fall in the 1981 forecasted additions identified on page 83 of the transcript. The upward adjustment to working capital of $39,000 results from adding excise taxes and similar charges to the cost of gas for the purpose of calculating the working capital allowance. In addition to the above matters, the Commission also considered whether or not the 700 feet of main installed to serve the Northwest Wood Preservers location should remain in the category of rate base even though that location is now disconnected. The Commission believes that the investment was made in a prudent manner initially and that a new customer may require the use of the facility thereby justifying a return on this portion of the rate base.

III. COST OF SERVICE EXCLUDING RETURN

The Commission has considered the cost of service presented by the Applicant and in particular the level of intercorporate charges.

Northland is commended for its intercorporate cost control efforts in 1978 - 1980 but the Commission is concerned about the rapid growth in the level of computer services projected for 1981 and 1982. The Commission will again carefully consider this area in the next proceeding by the Applicant.

IV. COST OF GAS SUPPLY AND DEFICIENCY RIDER

Working Capital Allowance is intended to provide for the carrying cost of the difference in timing as to when the Utility must pay for its costs and when customers reimburse the Utility for costs. The allowance is normally calculated in advance and relies upon the predictability of costs. Unpredicted cost increases such as the excise taxes and wholesale price increase impact on the utility in two ways. The obvious impact is the increased cost that must be paid for the next time the gas supplier sends his bill to the utility. Another, not so obvious cost occurs because the utility must wait some additional time to collect the full increase in costs from all of its customers. This time consists of two lags, firstly, the lag between the delivery of gas to a customer and the billing which is about 15 days and secondly, the lag that passes between a customer receiving the billing and the utility depositing the customer's payment. Northland's customers pay for cost of gas increases later than Northland pays for the same cost of gas increase. The utility is compensated for the net lag in receiving customer payments by an adjustment to the working capital allowance being included in rate base.

Northland chose not to request a change in its working capital allowance when it requested a pass-through of excise taxes and wholesale price increases. Instead, Northland requested a temporary deficiency rider that would compensate the Company in a few month's time what a working capital allowance adjustment would do over a long period of time.

On October 13, 1981 Northland submitted its first revision to its original July 31, 1981 application. The October 13,1981 application requested not only the working capital adjustment described above but also the deficiency rider. On October 26, 1981 Northland amended its application further by removing the working capital adjustment.

Upon the evidence presented, the Commission is of the opinion that an allowance for working capital adequately compensates the lag as described herein. The Commission however, does not wish to be taken as precluding a further consideration of this matter when and if the Applicant wishes to provide further or other evidence.

The effect of this adjustment is to require an increase in tariff rates of .5%. The Commission concludes therefore, that Northland shall further amend its tariff by excluding the deficiency rider. Northland shall refund to its customers of record in the period August 1, 1981 to November 30, 1981 the deficiency rider billed plus interest at the average monthly prime rate of the Applicant's principal bank. These amounts should be remitted to the customers or credited to their accounts during the month of January, 1982.

If Northland cannot, by March 31,1982, locate a former customer who is entitled to a refund the amount shall be recorded in a liability account for the remainder of that fiscal year during which period Northland shall collect evidence supporting a reasonable effort to locate the former customer. At December 31, 1982, any amounts remaining should be regarded as miscellaneous utility income.

V. CAPITAL STRUCTURE

The Commission has considered the capital structure put forward by the Applicant inclusive of the proposed new long-term debt issue in 1982. In the initial Application the Company estimated long term debt to cost approximately 15% and this was subsequently revised upward to 17%.

The Commission is concerned not only with the absolute level of interest rates but also the impact these rates may have upon the cost of service for years to come. In this regard the Commission would encourage the Applicant to achieve the most favourable terms possible with regard to refinancing, when interest rates decline.

The Commission while accepting the 17% interest rate advanced by the Applicant, recognizes that such rates are subject to fluctuation and the actual interest rate payable may be different.

However, to ensure that neither the shareholder nor the customer are unduly affected by fluctuations in the rate of interest, the Commission believes a deferred interest account should be established and included in rate base.

If the actual cost of new long-term funds exceeds the 17% estimate in this Decision, the balance shall be debited to this account. Similarly, if the cost of funds are less than 17% this account shall be credited. This deferred account will be disposed of during the next rate case.

VI. RETURN ON RATE BASE

The Commission has considered the return on equity and believes that a return within the range of 17% to 18% is appropriate at this time. The Applicant has requested a return on equity of 17.25% per Exhibit No. 4. If the cost of other types of funds stabilizes at current rates or increases, a higher return may be required to provide a just and reasonable return to the shareholders. Similarly, if a significant decline in long term interest rates occurred (i.e. 2% to 3%) a reduced rate of return on equity might be appropriate.

The Commission has considered the business risks inherent in the volume forecast and cost of service forecast. It is the opinion of the Commission that the business risks so taken are low to moderate but prudent by comparison with similar business undertakings in the same general part of the province.

In addition to the above considerations, the Commission has also taken into account the financial advantage to the customers of Northland of the borrowing capacity of the parent being made available to the subsidiary, which in turn results in a lower cost of long-term capital than that which the company could have obtained independently. The Commission has incorporated this consideration in arriving at a return on equity of 17.25%.

In consideration of the foregoing the Commission grants a return on rate base of 13.35%.

VII. RATE DESIGN

On October 1, 1979, the prices paid by Northland's various classes of customers were different and these differences were considered to represent fairly the relative differences in economic value the various classes of customer placed on given volumes of natural gas consumption.

Since October, 1979 there have been four price increases as a result of the pass-through of additional taxes and wholesale cost of gas. These increases have been simply added onto the

October 1, 1979 tariff with no attempt at maintaining the relative differences in economic values placed on gas by the various customer classes.

On the assumption that the October 1, 1979 tariff represented a fair distribution of value amongst the six rate classes and in the absence of any evidence arising since October, 1979 contrary to this assumption, each rate should have increased proportionately, thereby maintaining the same relative differences in the rates.

Gradual adjustment of the rates toward the relative differences prevailing on October 1, 1979 is required unless Northland advances evidence supporting a more equitable design.

DATED at the City of Vancouver, in the Province of British Columbia, this 4th day of December, 1981.

J.D.V. Newlands, Division Chairman

B.M. Sullivan, Commissioner

BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-87-81

PROVINCE OF BRITISH COLUMBIA

BRITISH COLUMBIA UTILITIES COMMISSION

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

and

IN THE MATTER OF an Application by Northland Utilities (B.C.) Limited

BEFORE:	J.D.V. Newlands, Division Chairman; and B.M. Sullivan, Commissioner	October 22, 1981

O R D E R

WHEREAS Northland Utilities (B.C.) Limited ("Northland") applied July 8, 1981 for interim rate relief; and

WHEREAS Commission Order No. G-68-81 authorized interim rate relief effective August 1, 1981 with the interim increase subject to refund with interest at the average monthly prime rate of the Applicant's principal bank; and

WHEREAS the same Commission Order established October 15, 1981 as the date of commencement for public hearing of the Application and directed Northland to file with the Commission on or before September 8, 1981 any prepared direct testimony and additional supplemental material upon which it proposes to rely; and

WHEREAS the Application was subsequently rescheduled and heard in public at Dawson Creek on October 22, 1981 in accordance with arrangements satisfactory to all interested parties; and

.../2

WHEREAS the Commission has considered the Application as amended October 13, 1981 and October 26, 1981 and evidence adduced thereon, all as set forth in a Decision issued concurrently with this Order.

NOW THEREFORE the Commission hereby orders Northland Utilities (B.C.) Limited as follows:

1. The Rate Base for the 1982 Test Year is $1,347,000.

2. The total Cost of Service for the 1982 Test Year is $3,105,000.

3. The Commission will accept for filing effective with consumption on and after December 1, 1981, subject to timely filing, amended Tariff Rate Schedules which will permit Northland to generate the annual gross revenue requirement of $3,105,000 as set out in Schedule II of the Commission Decision dated December 4, 1981. The amended Tariff Rate Schedules will be designed in accordance with the terms contained in the Commission Decision and a reconciliation schedule must be filed concurrently.

4. Northland is ordered to refund to its customers of record in the period August 1, 1981 to November 30, 1981 the deficiency rider billed plus interest at the average monthly prime rate of Northland's principal bank during the same period. These amounts should be remitted to the customers or credited to their accounts during the month of January 1982.

5. If Northland cannot by March 31, 1982 locate a former customer who is entitled to a refund the amount shall be recorded in a liability account for a maximum of one year during which period Northland shall collect evidence supporting a reasonable effort to locate the former customer. After the expiry of a year any amounts remaining shall be recorded as miscellaneous utility income.

DATED at the City of Vancouver, in the Province of British Columbia, this 4th day of December, 1981.

BY ORDER

Division Chairman

NORTHLAND UTILITIES (B.C.) LIMITED SCHEDULE I

1982 Test Year

Utility Rate Base ($000's)

	Per Application (Exhibit 1)	Applicant's Adjustments	Final Application	Commission Adjustments	Final Adjusted Balance
Gas plant in service as at December 31, 1981	$2,347	-	2347	(a) (28)	2319
Additions to gas plant in service (mean)	193	-	193	-	193
Gross Plant	$2,540	-	2540	(28)	2512
Less: constributions in aid of construction	345	-	345	-	345
	$2,195		2195	(28)	2167
Accumulated depreciation	(951)	-	(951)	(1)	(950)
Net Plant	$1,244	-	1,244	(27)	1217
Working Capital Allowance					
Cash working capital	$ 81	(23)	58	(b) 39	97
Other working capital items	$ 33	-	33	-	33
	$ 114	(23)	91	39	130
NET UTILITY RATE BASE INVESTMENT	$1358	(23)	1335	12	1347

NOTES TO SCHEDULE I

(a) Reference: Page 83 of the transcript, Lines 18 - 22

The forecast additions to gas plant are likely to be $28,000 less than the amount on page 10 of the Application.

(b) Reference: Page 144 of the transcript, Lines 1 to 5, Page 9 of the Application revised 81/10/13 and Page 9 of the Application revised 81/10/26

The inclusion of excise tax expense in the cash operating costs for purposes of working capital allowance adds $23,000 to rate base.

1982 Excise tax expense	$742,000	
11/365 net lag		23,000

Also to be included is an allowance for the wholesale price increase effective August 1, 1981. Using test year volumes:

1,218,020 MCF at 42.2¢ per MCF	$514,004	
11/365 net lag		16,000
Total Adjustment		$ 39,000

SCHEDULE II

NORTHLAND UTILITIES (B.C.) LIMITED

Adjusted Utility Income and Earned Return

1982 Test Year

$000's

	Per Application (Exhibit 1)	Applicant's Adjustments	Final Adjusted Balance per Application	Commission Adjustments	Final Adjusted Balance
Gas Sales Volume (MCF)	1218020	-	1218020	-	1218020
Gas Sales Revenue					
Dawson Creek - general rate	$2061	-	$2061	10	$2071
- optional rate	726	-	726	3	729
- special contract	93	-	93	1	94
Pouce Coupe - general rate	132	-	132	1	133
- optional rate	33	-	33	-	33
Rolla - general rate	32	-	32	-	32
Delayed payment charge	13	-	13	-	13
Total sales revenue	$3090	-	$3090	15*	$3105
Expenses					
Purchase of gas	$2045	-	$2045	-	$2045
Operation & maintenance	637	-	637		637
Property, franchise & sundry taxes	61	-	61	-	61
Depreciation	55	-	55	-	55
Net Utility income before taxes	$2798		$2798		$2798
Net Utility income before taxes	$ 292	-	$ 292	15	$ 307
Deduct: - Income taxes					
- payable	105	-	105	8	113
- deferred	14	-	14	-	14
	119	-	119	8	127
EARNED RETURN	$ 173	-	$ 173	7	$ 180
Utility Rate Base Investment	$1358	(23)	$1335	12	$1347
RATE OF RETURN ON DEPRECIATED RATE BASE	12.75%		12.96%		13.35%

* See notes to Schedule IV

NORTHLAND UTILITIES (B.C.) LIMITED

SCHEDULE III

1982 Test Year

Calculation of Income Taxes on Utility Income

$000's

	Application (Exhibit 1)	Applicant's Adjustments	Final Adjusted Balance per Application	Commission Adjustments	Final Adjusted Balance
Net utility income	$ 292	-	292	15 *	307
Deduct: Interest expense	65	-	65		65
Net Income before timing differences	$ 227	-	227	15	242
Deduct: Timing difference adjustments	25	-	25	-	25
TAXABLE INCOME	$ 202	-	202	15	217
Income tax rate					
-current	52%	-	52%		52%
-deferred	56%	-	56%		56%
Income taxes					
-payable	105	-	105	8	113
-deferred	14	-	14	-	14
INCOME TAX EXPENSE	$119	-	119	8	127

*see notes to Schedule IV

NORTHLAND UTILITIES (B.C.) LIMITED

SCHEDULE IV

1982 Test Year

($000's)

RETURN ON CAPITAL

	Final Adjusted Balance per Application	Commission Adjustments	Final Adjusted Balance	% of Capital Structure	Embedded Cost	Cost Component
Long-term debt	$ 477	(a) (12)	465	46.78	(b) 14.25%	6.66%
Reserve for inquiries and damages	43	-	43	4.33	-	-
Deferred taxes	100	-	100	10.06	-	-
Common Equity	383	(c) 3	386	38.83	17.25	6.69%
	$1003	(9)	(d) 994	100.00		13.35%

NOTES TO SCHEDULE IV

(a) Assume the reduction in rate base from schedule I is coincident with a reduction in Long-term debt.

a)	Opening fixed assets lower by	$28,000
b)	Working Capital for wholesale price pass-through higher by	16,000
	Net decrease in debt	$12,000

(b) Embedded cost of debt:

$200,000	at	10.6%	=	$21,200
$265,000	at	17.0%	=	45,050
$465,000	at	14.25%	=	$66,250

(c) In order to reflect a return on common equity of 17.25% and provide a return on the increased working capital allowance income must be increased by $7,000 during 1982. This is accomplished by an additional $15,000 of revenue requirement representing a .5% increase in the requested tariff.

(d) The adjusted rate base is $353,000 higher than the adjusted capital structure. A reconciliation of rate base, capital structure and the balance sheet reveals that about 50% of the difference is represented by the 1982 mid-year current intercorporate debt. The 17.25% return on Common Equity will be unaffected by a prorata distribution of the $353,000 amongst debt, no cost capital, and common equity. Such a distribution could be considered reasonable.