

In the Matter of the Energy Act  
and  
In the Matter of an Application by  
West Kootenay Power and Light  
Company, Limited

DECISION

March 7, 1980

Before Norman R. Gish, Chairman,  
D.B. Kilpatrick, J.D. King and F.E. Walden,  
Commissioners

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED  
1976 RATE APPLICATION  
SUMMARY OF DECISION  
MARCH 7, 1980

The application of West Kootenay Power and Light Company, Limited dated January 15, 1976, was heard originally in 1976. No conclusion was reached, due primarily to lack of evidence as to the cost of power. The application was heard again commencing October 30, 1979, in Nelson and completed on January 8, 1980, in Vancouver.

In the initial decision of December 7, 1976, the Commission addressed the question of the status of Cominco Ltd. under the Energy Act, referring the matter to the Appeal Court of British Columbia. This matter was not addressed in the current hearing and is still unresolved.

On the basis of new evidence the Commission finds acceptable the cost of power of 5.6 mills/Kwh as presented in the application, and confirms as final the two previously authorized interim increases totalling 12.6%.

After amendments by the Applicant and adjustments by the Commission the amended tariffs provide the Applicant the opportunity to earn approximately 10% on rate base and 15.78% on common shareholders equity. The Commission finds these tariffs and resulting rates of return to be fair and reasonable in the circumstances and accepts for filing the rate schedules set out in Commission Order G-43-76.

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#### APPEARANCES

P.W. Butler J.A. Angus	for	West Kootenay Power and Light Company, Limited
D. Gillis	for	Canadian Cellulose Co. Ltd.
D.M.M. Goldie, Q.C. C.B. Johnson	for	Cominco Ltd.
R.J. Bauman	for	The Corporation of the City of Grand Forks The Corporation of the City of Penticton The Corporation of the District of Summerland The City of Kelowna The Corporation of the City of Nelson
Norm Gabana	for	The Regional District of Kootenay Boundary The Regional District of Central Kootenay
P.A. Gall E. Berndt	for	Consumers Association of Canada
R.B. Wallace	for	Atco Lumber Limited Crown Zellerbach Canada Limited Kelowna Lumber and Plywood Division Hadikin Bros. Lumbering Ltd. Kalesnikoff Lumbering Company Limited Kootenay Forest Products Limited Louisiana-Pacific Canada Limited Pope and Talbot Limited Grand Forks Division Midway Division

APPEARANCES CONTINUED

R.B. Wallace (Contd.)

Slocan Forest Products  
Limited  
T & H Sawmills Limited  
Weyerhaeuser Canada Ltd.  
Wyndel Box & Lumber Co. Ltd.

George Jobb

for Mr. & Mrs. W.J. Bleiler

B.M.M. Carpendale

On His Own Behalf

R.M. Etches

On His Own Behalf

J.G. McDowell

On His Own Behalf

Larry Wanjoff

On His Own Behalf

R.J. Gibbs, Q.C. (Alberta)  
K.E. Gustafson

Commission Counsel

LIST OF EXHIBITS

	<u>Exhibit No.</u>
Letter, October 29, 1979. G.K. Harper. List of publications. Notice of Hearing.	1.
Application of West Kootenay to B.C.E.C. to revise certain rate schedules.	2.
West Kootenay reply to request for additional information, March 22, 1975.	3.
Testimony of Eric N. Wright.	4.
Reply to request for additional information, July 30, 1979.	5.
Application Volume I of West Kootenay, May, 1979.	6.
Application Volume II.	7.
Reply to request for additional information, July 26, 1979.	8.
Letter, September 11, 1979. B.C.E.C. to W.K.P. & L., and questions and rewritten evidence of August 21, 1979.	9.
Response to questions asked in R.B. Lundgren's letter dated September 11, 1979.	10.
Written evidence and other material pursuant to Para 6 of B.C.E.C. Order G-13-79.	11.
Appraisal of West Kootenay assets as of December 31, 1978 and December 31, 1974, by General Appraisal.	12.
Appraisal of Cominco Power Facilities at Trail, volume I.	13.
Appraisal of Cominco Power Facilities at Trail, volume II.	14.

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Amended application for rate increase, October 29, 1979.	15.
Transcripts of 1976 Hearing.	16.
Submission of the Forest Industry Intervenors.	17.
Submission on behalf of the City of Grand Forks, Penticton, Kelowna, Nelson and the District of Summerland.	18.
Submission of Larry Wanjoff.	19.
Update of Schedule JAD 6 of Exhibit 11.	20.
Submission of Regional District of Kootenay Boundary.	21.
Staff exhibits for purposes of cross examination of W.K.P. & L. panel 2.	22.
Letter. Cominco to West Kootenay December 3, 1978. Notice of restriction.	23.
West Kootenay agreements with: 1. Cominco. 2. B.C. Hydro.	24.
Effect of revenue in 1974 of revised commercial rate schedules.	25.
Letter. W.K.P. & L. to B.C.E.C. November 16, 1979. Information requested at Nelson. Income taxes, bank borrowings, corresepondence with P.U.C.	26.
Information requested by Mr. Wallace, relating to the six power plants and water licenses.	27.
Letter, December 19, 1979. W.K.P.& L. to B.C.E.C. Statement of forecast earnings.	28.
Letter, December 21, 1979. W.K.P. & L. to B.C.E.C. Reply to request for additional information, November 30, 1979.	29.

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Letter, January 2, 1980. W.K.P. & L. to B.C.E.C.  
Information requested at Nelson, forecast cost of  
power finance division costs, vehicle charges,  
facilities to serve wholesale customers,  
normalizing adjustments of \$88,200 and \$138,196,  
rent to Cominco and executive personal costs. 30.

Letter, December 27, 1979. W.K.P. & L. to B.C.E.C.  
Information requested at Nelson, schedule of capital  
expenditures. 31.

Letter, December 19, 1979. W.K.P. & L. to B.C.E.C.  
Inter-company charges of \$61,000. 32.

List of items filed as exhibits at the 1976  
Hearings in Kelowna, Trail and Vancouver. 33.

Letter, December 17, 1979. Farris, Vaughan,  
Wills and Murphy to Lawrence & Shaw. 34.

Application for Certificate of Public Convenience  
and Necessity from W.K.P. & L. January 3, 1980  
and letter of agreement W.K.P. & L. to Cominco,  
January 3, 1980. 35.

Letter, December 13, 1979. Canadian Cellulose  
Company Limited to W.K.P. & L. re termination of  
contract with Cominco. 36.

Letter, January 8, 1979. W.K.P. & L. to Canadian  
Cellulose in reply to letter of December 13, 1979. 37.

Notice of motion for an Order by the Commission  
for the Applicant to provide information and  
documentation requested of Mr. G. K. Harper at  
Nelson. 38.

Letter, December 31, 1979. Russell & Dumoulin  
to B.C.E.C. and attachments including water  
licenses, statutory declaration of P.C. Stewart,  
application for approval of the sale of assets,  
Order of the P.U.C. 39.



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Submission of Regional District of Kootenay Boundary, January, 1980.	40.
Letters and ballots supporting the brief of the Regional District of Kootenay Boundary.	41.
Telegram from Mayor Mowatt, City of Nelson to N. Graham, Regional District of Kootenay Boundary.	42.
Revised Tab 3 of Exhibit 11 analysis of electrical rate increase to residential customers.	43.
Written evidence of G.H. Scruton of the Shawinigan Engineering Company Limited, January 4, 1980.	44.
Submission of W. & A. Bleiler, June 23, 1979.	45.
Submission of W. & A. Bleiler, October 3, 1979.	46.
Submission of W. & A. Bleiler, December 2, 1979.	47.
Annual Report, Cominco, 1974.	48.
Letter, January 7, 1980, from Russell & DuMoulin and attachments, in reply to letter of January 4, from Mr. Gustafson.	49.
Graph. Exhibit HWR-4 average megawatts Cominco-W.K.P. & L.	50.
Comparison of Canadian and U.S. price indexes of electric utility construction.	51.
Housekeeping matters from testimony of Brian Morris, January 7, 1980.	52.
Land acreages for Cominco power facilities based on tax notices.	53.

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED  
DECISION - 1976 APPLICATION  
DATED March 7, 1980

INTRODUCTION

The application of West Kootenay Power and Light Company, Limited (West Kootenay) dated January 15, 1976, for authorization to increase rates for service by 12.6% on a 1974 test year, was heard originally on May 18 to 20, 1976, in Kelowna, on May 26, 1976, in Trail and completed in Vancouver on September 7, 1976. This original application was heard by Commissioners Ludgate and Johannessen. Mr. Johannessen retired from the Commission in May 1977.

The Commission members hearing the original application were unable to reach a conclusion relative to the cost of power to the Applicant from its parent, Cominco Ltd. (Cominco) because of the lack of adequate evidence. In a decision dated December 7, 1976, the Commission accepted for filing, on an interim basis only, the amended rate schedules proposed in the application to be effective January 5, 1977. A stated case was put to the Court of Appeal to consider a number of matters including the question as to whether or not the generating facilities of Cominco were subject to regulation under the Energy Act. West Kootenay also appealed the decision and the Court of Appeal determined that the appeal should be heard prior to the stated case. The appeal did not proceed and the Commission decided to re-hear the application "de novo".

The re-hearing of the application commenced in Nelson, on October 30 and continued until adjourned on November 2, 1979. The hearing recommenced in Vancouver on January 3, 1980 and continued to January 8, 1980. In this hearing the Commission comprised Mr. Norman R. Gish, Chairman and Messrs. D.B. Kilpatrick, J.D. King and F.E. Walden, Commission members.

In the decision following the initial hearing on the application of West Kootenay dated January 15, 1976, the historical background of the company and the details of the application were set out fully. They are therefore not repeated here. The application dated January 15, 1976 based on a 1974 test year requested an increase in rates of 12.6%. The Commission granted a 6% refundable interim increase, to be effective March 1st, 1976. Following the initial hearing, which concluded in a decision dated December 7th, 1976, the refundable interim increase was raised to the 12.6% applied for in the initial application, effective January 5th, 1977. The essence of this application is a determination as to whether the two aforementioned interim increases totalling 12.6% are just and reasonable.

Prior to the re-hearing in October 1979 the Applicant filed detailed studies of its plant prepared by General Appraisals Ltd. designed to establish reproduction costs new and depreciated reproduction costs. These were referred to in support of the original application. At the resumption of the hearing on January 3rd, however, the Applicant withdrew any

information relating to the appraisals in respect of its 1976 application. The Commission was asked to proceed with the hearing on the basis of original costs and with the information that was included in the original application subject to minor amendments resulting from Commission staff queries.

Following a pre-hearing conference, July 17, 1979, it was decided that the hearing would deal with both the 1976 application and another application dated May 1979 for an additional rate increase. However, in the initial stages of the hearing in Nelson, Cominco requested an adjournment so that it could become a full participant in the proceedings. In addition, it became apparent that the 1979 application could not be heard because of information deficiencies and late amendments. Accordingly, the Commission decided that evidence would be taken in Nelson touching on both applications to the extent possible and that the hearing would be resumed in Vancouver on January 3rd, 1980.

On resumption of the hearings in Vancouver an application was received from West Kootenay for the issuance of a Certificate of Public Convenience and Necessity regarding a proposed lease with option to purchase certain generating facilities owned by Cominco.

Because the proposed lease would have a significant effect on the 1979 rate application, the Commission agreed to defer the hearing of that application pending a decision on the certificate application. The hearing continued and dealt with only the 1976 application.

ISSUES IN THE 1976 APPLICATION AND HEARING

At the outset of the hearing it was confirmed by the Commission that the 1976 application would be heard "de novo". This did not result, however, in a detailed investigation of the entire application as the previous hearing had dealt with all aspects of the application other than the cost of power. The application, exhibits and transcript of the previous hearing were introduced as an exhibit. Among the new exhibits introduced were those with respect to the cost of power and whether the price paid by West Kootenay to Cominco in 1976 was reasonable. These are the principal issues to be resolved in this decision.

COST OF POWER

In a non-arms-length relationship such as exists in this case, a contract does not in itself automatically justify as appropriate, the price or cost of power between the parties.

The significant fact is that West Kootenay is a subsidiary of Cominco and in such a clearly non-arms-length relationship all transactions between the parent and its regulated subsidiary must be thoroughly examined. In this case it must be recognized that West Kootenay should pay no more for the power it buys from Cominco than it would cost the utility if it owned and operated the facilities involved. Were it otherwise, the entire function of utility regulation would be jeopardized, as the means would be readily at hand to remove any utility from effective public scrutiny and control.

Some questions emerged from cross-examination as to whether the cost of power should relate to the costs associated with two particular generating facilities; namely, plants #2 and #3 leased by Cominco to the Applicant. The Commission has concluded that the cost of power between Cominco and West Kootenay must be that associated with the system as a whole and not related to any particular facility, reflecting the fact that the entire system is managed for Cominco by the Applicant.

The overall cost of power charged by Cominco to West Kootenay in the 1974 test year was about 5.6 mills per Kwh. This was an average rate and covered depreciation, lease charges, water license fees and other operating costs and presumably a return on rate base. The operating costs are readily identified and present no particular problems other than those of validating the inter-company charges. It does not appear to the Commission that, in the test year, these charges were excessive. Because of the parent-subsidary relationship, however, inter-company charges in the 1979 rate application will receive more detailed examination than justified retrospectively for the test year 1974.

In this case it has been essential, although difficult, to attempt to identify and appraise the generating and transmission costs of Cominco involved in the cost of power transmitted to the Applicant, to see that they have at least the general characteristics acceptable from a utility point of view. It is recognized that Cominco has not maintained its accounts in the form required in a regulated utility and that, accordingly, much of the evidence has been associated with

"notional" accounts, i.e. how the accounts would have appeared if utility accounting had been applied.

The Applicant found the accounts as maintained by Cominco inappropriate for determination of rate base from historic costs. Using the facilities appraisals undertaken by Cominco, their expert witness derived a "notional" rate base by the application of construction cost indices to estimated replacement costs new, thereby arriving at estimated original costs. To these he applied condition factors derived by physical inspection to arrive at "notional" depreciation rates. The notional rate base and depreciation charges so derived were allocated to the various consumers largely on the basis of demand. Operating costs, adjusted to reflect utility accounting, were allocated on the basis of energy rather than demand.

Using this approach the Cominco/West Kootenay experts concluded that the appropriate charge to the Applicant by Cominco for power sold to the Applicant in 1976 was in the range of 10 to 14 mills/Kwh, depending on the rate of return allowed and whether the rate was applied to estimated original cost or to depreciated rate base.

Experts retained by Commission counsel examined the application from the standpoint of original cost as indicated in Cominco's books of account, adjusted in accordance with utility practice for interest during construction, etc. and depreciation at conventional utility rates. The rate base thus derived, on the historic cost basis conventionally utilized in

utility regulation, was then allocated by the A.E.D. (average and excess demand) method, which recognizes the influence of both demand and energy. The experts' conclusion was that the appropriate charge to the Applicant by Cominco for power sold to the Applicant in 1976 would have been in the order of 5.225 mills/Kwh.

The testimony of Messrs. Larson and Scruton provided new evidence essential to determination of the cost of power. On the basis of that evidence the Commission has concluded that the appropriate cost of power is in the order of 5.225 mills per Kwh.

The opinions of both Mr. Larson for West Kootenay/Cominco and of Mr. Scruton as an independent witness were of necessity heavily based on highly technical judgement. In particular, the allocation of costs based on demand and energy produced significantly different conclusions, either of which might be considered reasonable but both of which are essentially judgemental. It is the view of the Commission in this particular case, because of the protection of supply inherent in the Canal Plant Agreement with B.C. Hydro and the accessibility of the export market for sales of energy surplus to Cominco/West Kootenay requirements, that allocation of costs should relate primarily to energy consumption rather than demand.

On the question of the appropriate rate of income tax to be applied to utility income on a notional basis, the Commission concludes that the rate to be allowed in the



calculation of cost of power is that which is applicable to Cominco's power operations. If other elements of Cominco's operations generate tax savings, there is no reason in either accounting or equity why that saving should be shared with the Applicant. It would appear that application of these principles would add 0.15 mill/Kwh to the estimated total cost of power.

#### OTHER MATTERS

##### The Status of Cominco

The question remains unresolved as to whether the generating and transmission facilities of Cominco are subject to regulation under the terms of the Energy Act. Resolution of that matter is neither essential to the decision in this 1976 application nor appropriate, in light of the application by West Kootenay for a Certificate of Public Convenience and Necessity with respect to leasing with an option to purchase certain generating and transmission facilities from Cominco. Such an arrangement, if approved, will provide the utility with long-term access to specific elements of Cominco's generating capacity, and may affect the determination of this question.

##### Cost of Debt

It should be noted that, in any parent/subsidiary relationship, consideration must be given to the embedded cost of debt and whether the level of debt is appropriate. While it is not unusual for a subsidiary to follow the financing pattern

of its parent, this is not necessarily appropriate if the parent itself is not a utility. In this case the evidence suggests that the resulting cost of debt to the Applicant may have been higher than necessary in the circumstances.

#### Depreciation

A major question which must be decided at some later time is whether remedial action should be taken when historic depreciation has been found to give rise to unrealistic net book values. It is obvious that accounting depreciation rates may frequently fail to produce the correct timing of the allocation of the cost of an asset over the life of that asset, but the issue is really far more important than the question of correct numerical application. It goes to the heart of the question as to whether depreciation charges should represent only the allocation of original cost or if somehow they should represent as well the anticipated cost of replacement of the depreciating asset. This is particularly important in periods of high inflation, when the use of historic depreciation is inadequate to provide a replacement fund. The concept is probably more important in contemplation of continuing expansion by hydro-electric utilities than in most other types of utilities, due to exceedingly high initial capital costs. It is virtually impossible to forecast consumption patterns and ultimate required generation cannot be foreseen with any reasonable degree of accuracy. An increasingly serious issue is therefore whether present consumers should not be required to pay some part of the virtually certain additional costs associated with providing more generating and transmission

facilities in advance of their actual requirement. These additional costs may be expected to be higher on a unit basis, not only by reason of inflation but also because of longer distances between generating sites and centres of consumption.

These are broad matters of utility and regulatory policy associated with marginal cost pricing and current value accounting and, while they must ultimately be addressed, a conclusion on the 1976 application does not require their prior resolution.

#### Interventions

The Commission again records its concern for the plight confronting senior citizens on fixed incomes in the face of steadily rising costs for essential natural gas and electricity. The Commission cannot, however, embark on a program of subsidy through the rates. If such a subsidy is to be provided, it should be through appropriate social programs.

The Commission would also acknowledge the intervention of Mr. Larry Wanjoff, which clearly illustrated the justifiable frustration of individuals trying to intervene in a useful way and trying to understand the complicated and technical issues of a rate application. His points regarding the effect of delays in decisions on the consumer and the question of what constitutes "public interest", will be pursued in more detail at the hearing of the 1979 application.

THE DECISION

The Commission has concluded that the appropriate cost of power is something in excess of 5.225 mills per Kwh. In light of the many judgemental factors involved, the Commission concludes that the average cost of 5.6 mills included in the 1976 rate application is reasonable and acceptable. The Commission therefore approves the 1976 application, and confirms as final the interim increases totalling 12.6%.

Details of amendments of the application made by the Applicant and adjustments by the Commission are set out in Schedules I, II and III. The result of these changes is that the amended tariffs provide the Applicant with the opportunity to earn approximately 10% on rate base and 15.78% on common shareholders equity. The Commission finds that these tariffs and resulting rates of return are fair and reasonable in the circumstances and accepts for filing the rate schedules set out in Commission Order G-43-76. The subsequent interim rate schedules pursuant to Order G-12-79 incorporating a 15% interim increase, remain in effect.

The specific order of the Commission which allows the Applicant to put into effect schedules for service by the Applicant is appended to this decision.

DATED at the City of Vancouver, in the Province of  
British Columbia, this 7th day of March, 1980.



Norman R. Gish - Chairman



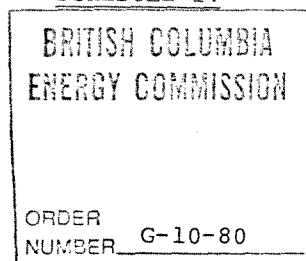
D.B. Kilpatrick - Commissioner



J.D. King - Commissioner



F.E. Walden - Commissioner



PROVINCE OF BRITISH COLUMBIA  
BRITISH COLUMBIA ENERGY COMMISSION

IN THE MATTER OF the Energy Act  
and

IN THE MATTER OF Applications dated  
January 15, 1976 and February 6,  
1976 (the "1976 Applications") of  
West Kootenay Power and Light  
Company, Limited

BEFORE:	Mr. N.R. Gish,	)	
	Chairman;	)	
	Mr. D.B. Kilpatrick,	)	
	Commissioner;	)	March 7, 1980
	Mr. J.D. King,	)	
	Commissioner; and	)	
	Mr. F.E. Walden,	)	
	Commissioner	)	

O R D E R

WHEREAS West Kootenay Power and Light Company,  
Limited ("West Kootenay") applied January 15, 1976 to amend  
certain of its rate schedules for electric service filed with  
the Commission; and

WHEREAS West Kootenay applied February 6, 1976  
to amend, on an interim basis, certain of its rate schedules  
for electric service filed with the Commission and by Order  
No. G-12-76, dated February 13, 1976, the Commission  
consented to the filing by West Kootenay of the said rate  
schedules; and

WHEREAS by Order No. G-43-76, dated December 7,  
1976, the Commission consented to the filing by West Kootenay,  
of further amended rate schedules; and

WHEREAS West Kootenay applied May 14, 1979 to  
amend certain of its terms and conditions for electric  
service and rate schedules filed with the Commission; and

BRITISH COLUMBIA  
ENERGY COMMISSION

ORDER  
NUMBER G-10-80

2


WHEREAS West Kootenay applied May 16, 1979 to amend, on an interim basis, certain of its rate schedules for electric service filed with the Commission and by Order No. G-12-79, dated June 1, 1979, the Commission consented to the filing by West Kootenay of the said rate schedules.

NOW THEREFORE the Commission hereby orders as follows:

1. The Commission confirms the rates authorized on an interim basis by Orders No. G-12-76, dated February 13, 1976, and G-43-76, dated December 7, 1976 as the only lawful, enforceable and collectable rates until otherwise ordered; and
2. The direction on page 17 of the Decision dated December 7, 1976, and Paragraph 3 of Order No. G-43-76, dated December 5, 1976, are rescinded; and
3. Notwithstanding Paragraph 1 hereof the Commission confirms the continuation of Order No. G-12-79, dated June 1, 1979.

DATED at the City of Vancouver, in the Province of British Columbia, this 7th day of March, 1980.

BY ORDER

  
Chairman

NOTES TO SCHEDULE II

- (a) Adjustment to normalize for the difference between the average consumption per customer in 1974 and the adjusted average consumption per customer in 1975 per item 1, exhibit 39, entered May 26, 1976.

Increase in 1974 revenue adjusted with rate increase \$ 63,627

Increase in power purchased expense \$ 23,868

Additional quantity of energy sold

Incremental cost of additional purchased power per exhibit 2, tab 4, page 5.

Line losses at 9% 6.67 mills/kwh  
x 109%

Incremental cost of power sold 7.2703 mills/kwh

Additional energy sold  
 $\$23,868 \div 7.2703 \text{ mills/kwh} =$  3,283 MWH

- (b) Adjustment per item 2, exhibit 39, of May 26, 1976 to reduce the cost of power purchased. \$(10,300)

- (c) Adjustment required to include gains/losses on the disposal of utility plant in the determination of earned return as per item G, page 27, exhibit 5, November 1979.

Gain on disposal of property \$119,758  
Amortization period 10 years  
Gain included in utility revenue for  
test year purposes  $\$119,758 \times 1/10 =$  \$ 11,976

- (d) Increase in income taxes due to net increase in earnings before income tax.  
[51.216% (tax rate) x \$62,035] = \$ 31,772



## WEST KOOTENAY POWER &amp; LIGHT COMPANY, LIMITED

Depreciated Rate Base and Capitalization Base  
1974 Test Year

	Application Exhibit #2	Adjustments by Applicant	Balance per Application as Amended	Commission Adjustments	Final Adjusted Balances
Plant in Service at December 31, 1974	\$43,133,644		\$43,133,644		\$43,133,644
Less accumulated depreciation	19,120,290		19,120,290		19,120,290
	24,013,354		24,013,354		24,013,354
Less credit in unamortized long term debt expense	241,883		241,883		241,883
Depreciated value of plant in service at December 31, 1974	23,771,471		23,771,471		23,771,471
Allowance for Working Capital					
Investment in operating expenses per lag study	458,068	(a) \$( 2,576)			
		(b) 10,957			
		(c) 2,553	469,002	(g) \$(1,304)	467,698
Buffer cash	162,032	(d) (162,032)	-		-
Inventory	1,220,971		1,220,971		1,220,971
Receivables on custom work and operating agreement	174,994		174,994		174,994
	2,016,065	(151,098)	1,864,967	(1,304)	1,863,663
Less: - customer security deposits	(130,265)		(130,265)		(130,265)
- adjustment in stores to be charged to construction	(470,971)	(e) 470,971	-		-
	1,414,829	319,873	1,734,702	(1,304)	1,733,398
Less rounding adjustment by applicant	(829)		(829)		(829)
Working Capital	1,414,000	319,873	1,733,873	(1,304)	1,732,569
	25,185,471	319,873	25,505,344	(1,304)	25,504,040
Add work in progress at December 31, 1974	725,366	(f) (274,183)	451,183		451,183
Depreciated Rate Base at December 31, 1974	\$25,910,837	\$ 45,690	\$25,956,527	\$(1,304)	\$25,955,223

NOTES TO SCHEDULE I

- (a) Adjustment to reduce the lag study results in order to reconcile with revenues and expenses in the Statement of Earnings, per exhibit 15, filed May 18, 1976. \$ ( 2,576)
- (b) Adjustment required to increase the lag study results by removing interest expense as a component in determining the allowance for the cash working capital requirement per item J(1), page 30, exhibit 5, November 1979. \$ 10,957
- (c) Increase in working capital due to adjustments (a), (b) and (d) on Schedule II following. \$ 2,553
- (d) Adjustment re buffer cash item J(2), page 31, exhibit 5, November 1979. \$(162,032)
- (e) Adjustment required to include the investment in inventories held for capital construction as a component of working capital per item I, page 29, exhibit 5, November 1979. \$ 470,971
- (f) Adjustment re year end work in progress on which interest has been charged. Tab 4, page 21A, exhibit 39, May 1976. \$(274,183)
- (g) Decrease in cash working capital requirement as a result of adjustments (f), (g) and (h) per Schedule II. \$ ( 1,304)

## WEST KOOTENAY POWER &amp; LIGHT COMPANY, LIMITED

Statement of Earnings and Earned Return for the  
Test Year Ended December 31, 1974

	Application Exhibit #2		Adjustments by Applicant	Balance per Application as Amended	Commission Adjustments	Final Adjusted Balances
Energy Sales (Mwh)	<u>1,120,878</u>	(a)	<u>3,283</u>	<u>1,124,161</u>	-	<u>1,124,161</u>
<u>Operating Revenue</u>						
Electricity sales	\$14,633,488	(a)	\$ 63,627	\$14,697,115		\$14,697,115
Other operating revenue	<u>182,617</u>			<u>182,617</u>		<u>182,617</u>
	<u>14,816,105</u>		<u>63,627</u>	<u>14,879,732</u>	-	<u>14,879,732</u>
<u>Expenses</u>						
Power purchased	3,134,952	(a)	23,868			
		(b)	(10,300)	3,148,520		3,148,520
Generation	1,948,092			1,948,092		1,948,092
Transmission and distribution	2,129,155			2,129,155		2,129,155
General and administrative	1,043,254			1,043,254	(f) 16,040	1,059,294
Property taxes and water fees	1,119,168			1,119,168		1,119,168
Depreciation	<u>1,330,488</u>			<u>1,330,488</u>	(h) ( 52,307)	<u>1,278,181</u>
	<u>10,705,109</u>		<u>13,568</u>	<u>10,718,677</u>	( 36,267)	<u>10,682,410</u>
Earnings from operations	4,110,996		50,059	4,161,055	36,267	4,197,322
<u>Other Income</u>						
Interest	5,187			5,187		5,187
Rents and sundry revenue	28,128			28,128		28,128
Amortization of deferred credit	19,652			19,652		19,652
Gain on disposal of property	-	(c)	11,976	11,976		11,976
	4,163,963		62,035	4,225,998	36,267	4,262,265
Less interest on long term debt	<u>1,064,021</u>			<u>1,064,021</u>		<u>1,064,021</u>
Earnings before income taxes	3,099,942		62,035	3,161,977	36,267	3,198,244
Less income taxes	<u>1,583,847</u>	(d)	<u>31,772</u>	<u>1,615,619</u>	(g) 18,575	<u>1,634,194</u>
Net earnings for the year	1,516,095		30,263	1,546,358	17,692	1,564,050
Add: - interest on loans (net)	1,058,834			1,058,834		1,058,834
- adjustment on income tax expense	6,233			6,233		6,233
Less interest on portion of inventory held for capital purposes	<u>(47,097)</u>	(e)	<u>47,097</u>	-		-
Earned Return	<u>\$ 2,534,065</u>		<u>\$ 77,360</u>	<u>\$ 2,611,425</u>	(g) \$ 17,692	<u>\$ 2,629,117</u>
Depreciated rate base	\$25,910,837		\$ 45,690	\$25,956,527	\$( 1,304)	\$25,955,223

NOTES TO SCHEDULE II (Cont'd)

(e)	Adjustment to remove the imputed interest expense on inventory held for capital purposes per tab 4, page 11, exhibit 2, November 1979.		<u>\$47,097</u>
(f)	Increase in general and administrative expense to reflect actual hearing costs amortized over three years.		
	Applicant's hearing costs to May 31, 1979.	<u>\$160,620</u>	
	Actual hearing costs amortized over three years ( $\$160,620 \div 3$ ) =	\$ 53,540	
	Less estimated hearing costs amortized over two years per exhibit 2, tab 4, page 6.	<u>37,500</u>	
	Required adjustment		<u>\$16,040</u>
(g)	Net increase in income taxes and earned return necessary to increase the return on common equity to 15.78%.		
	Increase in earned return	\$17,692	
	Increase in income taxes	<u>18,575</u>	<u>\$36,267</u>
(h)	Reduction in depreciation expense and corresponding reduction in revenue requirement due to Commission revision of normalized depreciation to 50% of the allowance on test year additions rather than 100%.		<u>\$ (52,307)</u>

WEST KOOTENAY POWER & LIGHT COMPANY, LIMITEDCapital Structure and Return on Common Equity  
1974 Test Year

	<u>1974 Year End Capital Structure per Exhibit #2 Tab 3, Page 5</u>	<u>% of Capitalization Base</u>	<u>Embedded Cost per Exhibit #2 Tab 4, Page 22</u>	<u>Cost Component</u>
Contributions in aid of construction	\$ 1,205,000	4.60		
Deferred income taxes	1,123,000	4.28		
5 3/4% First Mortgage Bonds	7,252,000	27.66	5.75%	1.59%
Special Bank Loan	6,200,000	23.65	10.26%	2.43
Preferred Shares	500,000	1.91	7.00%	0.13
Common Equity	<u>9,938,000</u>	<u>37.90</u>	15.78%	<u>5.98</u>
	<u>\$26,218,000</u>	<u>100.00%</u>		<u>10.13%</u>



BRITISH COLUMBIA ENERGY COMMISSION	
ORDER NUMBER	G-10-80

PROVINCE OF BRITISH COLUMBIA  
BRITISH COLUMBIA ENERGY COMMISSION

IN THE MATTER OF the Energy Act  
and

IN THE MATTER OF Applications dated  
January 15, 1976 and February 6,  
1976 (the "1976 Applications") of  
West Kootenay Power and Light  
Company, Limited

BEFORE:	Mr. N.R. Gish,	)	
	Chairman;	)	
	Mr. D.B. Kilpatrick,	)	
	Commissioner;	)	March 7, 1980
	Mr. J.D. King,	)	
	Commissioner; and	)	
	Mr. F.E. Walden,	)	
	Commissioner	)	

O R D E R

WHEREAS West Kootenay Power and Light Company,  
Limited ("West Kootenay") applied January 15, 1976 to amend  
certain of its rate schedules for electric service filed with  
the Commission; and

WHEREAS West Kootenay applied February 6, 1976  
to amend, on an interim basis, certain of its rate schedules  
for electric service filed with the Commission and by Order  
No. G-12-76, dated February 13, 1976, the Commission  
consented to the filing by West Kootenay of the said rate  
schedules; and

WHEREAS by Order No. G-43-76, dated December 7,  
1976, the Commission consented to the filing by West Kootenay,  
of further amended rate schedules; and

WHEREAS West Kootenay applied May 14, 1979 to  
amend certain of its terms and conditions for electric  
service and rate schedules filed with the Commission; and

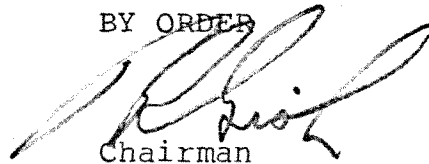
WHEREAS West Kootenay applied May 16, 1979 to amend, on an interim basis, certain of its rate schedules for electric service filed with the Commission and by Order No. G-12-79, dated June 1, 1979, the Commission consented to the filing by West Kootenay of the said rate schedules.

NOW THEREFORE the Commission hereby orders as follows:

1. The Commission confirms the rates authorized on an interim basis by Orders No. G-12-76, dated February 13, 1976, and G-43-76, dated December 7, 1976 as the only lawful, enforceable and collectable rates until otherwise ordered; and
2. The direction on page 17 of the Decision dated December 7, 1976, and Paragraph 3 of Order No. G-43-76, dated December 5, 1976, are rescinded; and
3. Notwithstanding Paragraph 1 hereof the Commission confirms the continuation of Order No. G-12-79, dated June 1, 1979.

DATED at the City of Vancouver, in the Province of British Columbia, this 7th day of March, 1980.

BY ORDER



Chairman

