

IN THE MATTER OF THE ENERGY ACT
AND
AN APPLICATION BY
CENTRAL HEAT DISTRIBUTION LIMITED
DATED SEPTEMBER 14, 1979

DECISION
MARCH 14, 1980

BEFORE:
D. B. KILPATRICK, COMMISSIONER AND CHAIRMAN
J. D. KING, COMMISSIONER
F. E. WALDEN, COMMISSIONER

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SCHEDULE I

Adjusted Utility Income and Rate of Return

THE ORDER

Order G-14-80

APPEARANCES

C. B. Johnson	for	Central Heat Distribution Limited
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D. Nielsen	for	Harbour Centre Complex Limited
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M. M. Moseley		Commission Counsel
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LIST OF EXHIBITS

	<u>Exhibit No.</u>
Application of Central Heat Distribution Limited, dated September 14, 1979, to Amend Steam Tariff B.C.E.C. No. 1.	1
Affidavit of James S. Barnes, dated March 10, 1980.	2
B.C.E.C. request for additional information, dated February 20, 1980. Response from Central Heat Distribution Limited, dated March 3, 1980.	3
Central Heat Distribution Limited, system map.	4
B.C.E.C. letter of November 27, 1978 and B.C.E.C. Order No. G-50-78.	5
Central Heat Distribution Limited, Financial Statements, December 23, 1978 to December 31, 1979.	6
Letter of C. B. Johnson, dated October 20, 1978.	7
Letter of R. B. Lundgren, dated October 25, 1978 and letter of J. S. Barnes, dated October 27, 1978.	8
Submission of Harbour Centre Complex Limited, dated February 20, 1980.	9
Central Heat Distribution Limited, Steam Tariff, B.C.E.C. No. 1, original page 4.	10

CENTRAL HEAT DISTRIBUTION LIMITED
Application Dated September 14, 1979

DECISION

INTRODUCTION

The application of Central Heat Distribution Limited for increases in its rates for steam service by 4% on October 1, 1979, and a further 4% on April 1, 1980 was heard in Vancouver on March 11, 1980. An interim increase of 4% effective October 1, 1979, refundable with interest at 9% if found to be excessive, was granted by Order G-34-79.

The background and history of the company has been set out in some detail in the Commission's decision of October 22, 1975, and will not be repeated here. Since that date, by reason of an amalgamation of Vancouver Central Investments Limited and its subsidiary Central Heat Distribution Limited, with the approval of the Commission there is now only one company with a simplified debt and capital structure. The company's tariffs include a fuel cost adjustment provision so that while charges for steam heat have increased since the last application for relief, there has been no increase in the basic steam tariff since April 1, 1978.

ISSUES

This application is for an increase of 8% in the base rate for service. The Applicant points out that this provides a return on rate base of about 7.1% and, on the basis of the capital structure presented, a return on equity of about 5.4%. While the Applicant does not consider this return to be adequate, the pressures of competition are clearly limiting the rates that can be charged.

The company's rate base for its initial system was approved in the 1975 Commission Decision. Adjustments to the rate base presented in the application are set out in Schedule I attached.

The capital structure as submitted shows that the company is financed by deferred demand bank loans, an amount due to a former shareholder following the corporate reorganization in 1973, and non-interest bearing shareholder loans and retained earnings. The bank loans are subject to a floating interest rate related to "prime" which at this time is very high. The extent to which the retained earnings and shareholder loans should be considered as equity capital and what proportion thereof should be treated as "preferred" and subject to a smaller rate of return is an issue that must

ultimately be addressed. At the present time, however, the company's prospective net utility income will not provide an excessive return in any circumstances and an appraisal of the appropriate capital structures therefore need not be made.

INTERVENORS

The intervention of one of the Applicant's customers spoke to inefficiencies of operation particularly with respect to provision in the system for condensate return. Neither the Intervenor nor the Applicant provided adequate technical evidence for the Commission to make an assessment of the matter. In any event in view of the financial pressures upon the company, and the fact that the Applicant's rates for service are determined by forces of competition rather than by limits imposed by regulation, it is concluded that the company is strongly motivated to operate the system for the maximum efficiency possible under the circumstances.

TEST YEAR

The Applicant has presented a forecast test year based on experience for 1979 projected to 1980. While projections for revenue in 1980, on the basis of oral evidence

in the hearing, may be overoptimistic, the use of such a test year, detailed in Schedule I is appropriate in the circumstances.

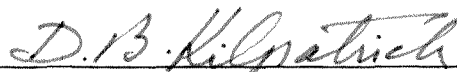
INCOME TAX


The company uses the "taxes payable" method of accounting for income taxes. This imposes no problem at present as prior years' losses are available to offset taxable income. If and when timing differences in the incidence of allowable costs occur, the question of adopting tax allocation or deferred tax methods must be considered.

DECISION

The Commission concludes that the requested increases result in charges that are fair and reasonable to the Applicant's customers and gives the Applicant an opportunity to earn a return that is not unreasonable in the circumstances. The interim increase of 4% is hereby confirmed as permanent and the additional increase of 4% effective April 1, 1980 is approved.

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of March, 1980.


D. B. Kilpatrick - Commissioner


J. D. King - Commissioner

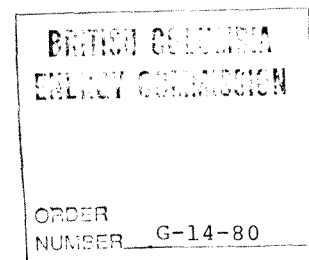

F. E. Walden - Commissioner

CENTRAL HEAT DISTRIBUTION LIMITEDAdjusted Utility Income and Rate of Return

	<u>Application (Exhibit 1)</u>	<u>Commission Adjustments</u>	<u>Final Adjusted Balance</u>
<u>Revenue</u>			
Steam sales	\$1,897,596	\$ -	\$1,897,596
Other	34,100	-	34,100
Fuel cost recovery	1,854,593	-	1,854,593
	<u>3,786,289</u>		<u>3,786,289</u>
<u>Expenses</u>			
Fuel - natural gas	1,794,224	-	1,794,224
- fuel oil	572,470	-	572,470
Water	38,740	(a) (12,357)	26,383
Chemicals	32,220	-	32,220
Power	18,136	-	18,136
Labour costs	411,000	-	411,000
Other operating & maint. expenses	50,000	-	50,000
General admin. & office expenses	186,550	(b) (5,992)	
		(c) (31,732)	
		(d) (5,000)	
		(e) 932	144,758
Taxes other than income	145,900	-	145,900
Depreciation	138,568	-	138,568
	<u>3,387,808</u>	<u>(54,149)</u>	<u>3,333,659</u>
Earned Return	<u>\$ 398,481</u>	<u>\$ 54,149</u>	<u>\$ 452,630</u>
Mean depreciated rate base	<u>\$5,558,959</u>	<u>(f) \$ (23,611)</u>	<u>\$5,535,348</u>
Earned return as a percentage of depreciated rate base	<u>7.17%</u>		<u>8.18%</u>

NOTES TO SCHEDULE I

(a) Adjustment to water expenses.		
Per Application (Exhibit 1, Tab 4)		\$ 38,740
<u>deduct:</u> revised amount per Applicant (Exhibit 3, Items 2 & 4)		(26,383)
	reduction required	<u>\$ 12,357</u>
(b) Adjustment to insurance costs.		
Per Application (Exhibit 1, Tab 4)		\$ 24,600
<u>deduct:</u> revised amount per Applicant (Exhibit 3, Item 3)		(18,608)
	reduction required	<u>\$ 5,992</u>
(c) Provision for administrative overhead on construction (Exhibit 3, Item 6(b)).		<u>\$ 31,732</u>
(d) Removal of non-recurring arbitration costs (Exhibit 3, Item 3).		<u>\$ 5,000</u>
(e) Rate Hearing costs of \$1,864. to be amortized over two years. \$1,864 x 50% =		<u>\$ 932</u>
(f) Rate Base Adjustment		
Revised amount per Applicant (Exhibit 3, Item 4)		\$ 5,519,482
<u>deduct:</u> Rate Base per Application (Exhibit 1, Tab 5)		(5,558,959)
	sub-total	(39,477)
<u>add:</u> provision for overhead on construction \$31,732 (note (c)) x 50% (mean) =		15,866
	reduction required	<u>\$ (23,611)</u>



PROVINCE OF BRITISH COLUMBIA
BRITISH COLUMBIA ENERGY COMMISSION

IN THE MATTER OF the Energy Act

and

IN THE MATTER OF an Application by
Central Heat Distribution Limited

BEFORE: Mr. D. B. Kilpatrick,)
Chairman;)
Mr. J. D. King,) March 14, 1980
Commissioner; and)
Mr. F. E. Walden,)
Commissioner

O R D E R

WHEREAS by application dated September 14, 1979,
Central Heat Distribution Limited ("Central Heat") sought to
amend its filed tariffs concerning the rates to be charged
for steam service rendered by the Company in its service area;
and

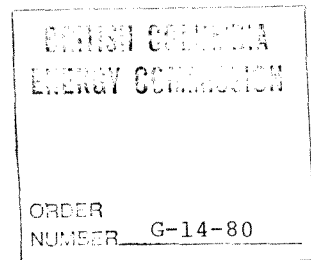
WHEREAS Central Heat applied for both an interim
increase of 4% effective October 1, 1979 and a further increase
of 4% effective April 1, 1980; and

WHEREAS after initial review of the application
the Commission issued Order G-34-79 dated September 21, 1979;
and

WHEREAS pursuant to Order G-6-80 the Commission
considered the application at a public hearing in Vancouver
on March 11, 1980; and

WHEREAS the Commission has concluded that the
requested increases totalling 8% result in charges that are

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fair and reasonable to the Applicant's customers and provides the Applicant an opportunity to earn a return on rate base which is not unreasonable in the circumstances.

NOW THEREFORE the Commission hereby orders as follows:

- (1) The interim increase of 4% is hereby confirmed as permanent and the additional increase of 4% effective April 1, 1980 is approved.
- (2) The Commission will accept for filing the tariffs reflecting these increases.

DATED at the City of Vancouver, in the Province of British Columbia this 14th day of March, 1980.

BY ORDER

D. B. Kilpatrick
Commissioner