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IN THE MATTER OF
THE UTILITIES COMMISSION ACT
S.B.C. 1980, c.60, as amended

and

IN THE MATTER OF
WEST KOOTENAY POWER AND LIGHT
COMPANY, LIMITED
APPLICATIONS FOR RATE RELIEF

DECISION
July 5, 1984

Before :
J.D.V. Newlands, Deputy Chairman and
Chairman of the Division
R.J. Ludgate, Commissioner

The West Kootenay Power and Light Company, Limited Application dated August 22, 1983, as amended October 3, 1983, January 9, 1984, February 13, 1984, and February 15, 1984 was heard in public in Rossland, British Columbia, on February 14-24, 1984 and in Kelowna, British Columbia on March 5-15, 1984.

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

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I. INTRODUCTION

West Kootenay Power and Light Company, Limited ("WKPL", "the Applicant", "the Company") is an electrical utility regulated under the provisions of the Utilities Commission Act ("the Act"). The Company was incorporated by an Act of the British Columbia Legislature on May 8, 1897 and is authorized to generate, transmit and distribute power within a radius of 150 miles of Rossland, British Columbia. WKPL serves residential, commercial, irrigation, street lighting, and industrial customers in an area roughly described as extending from Princeton in the west to Creston in the east and from the U.S. Boundary north to Kelowna and Kaslo. The Company supplies wholesale power to electric utility operations conducted by the Cities of Grand Forks, Kelowna, Nelson and Penticton, and the District of Summerland. Princeton Light and Power Company, Limited, a privately-owned utility serving Princeton and vicinity, purchases its electric power requirements from WKPL.

WKPL is a wholly-owned subsidiary of Cominco Ltd. ("Cominco"), which owns all of the common shares and about 30% of the preferred shares. The balance of the preferred shares are held by Canadian Pacific Enterprises Ltd., controlling shareholder of Cominco and itself a subsidiary of Canadian Pacific Limited.

Cominco, pursuant to an agreement with the Government of British Columbia in 1982, sold three of its existing five power plants to WKPL for $20 million; gave WKPL an option to construct additional generation at the remaining sites; undertook to provide 75 average annual megawatts on a firm basis to 1990; and gave WKPL the right of first refusal to buy the remaining power plants and any power generated which was surplus to Cominco's requirements, until 2005.

In addition to generation from WKPL facilities and purchases from Cominco, the balance of the energy requirement is purchased primarily from the British Columbia Hydro and Power Authority ("B.C. Hydro"). A small purchase was made from the Bonneville Power Administration ("BPA") in 1982.

The WKPL/Cominco integrated system consists of the following generation plants:

Plant No.	Name	Capacity MW	*Energy Entitlement (Gwh)	Location
1	Lower Bonnington	41.4	329.3	Kootenay River
2	Upper Bonnington	59.4	429.6	Kootenay River
3	South Slocan	53.2	422.9	Kootenay River
4	Corra Linn	51.2	343.2	Kootenay River
5	Brilliant**	128.9	853.4	Kootenay River
6	Waneta**	373.9	2,465.4	Pend d'Oreille River

* Source - Canal Plant Sub-Agreement
**Cominco Facilities

The Application for an increase in rates for electric service was filed and heard during a period when the Provincial economy was under severe strain. The immediate and short-term outlook for economic recovery is clouded with uncertainty as the general economic recession continues. This recession has had a significant impact on the service area of WKPL.

The service area of the Company, particularly the West Kootenay Region, which during the first quarter of 1984 had the highest unemployment rate in the Province (approximately 24% or 1 out of every 4 workers unemployed), has been severely affected by the recession and continues to lag in the fragile recovery currently underway. The balance of the service area, with the exception of isolated "pockets" such as Midway and Princeton, has been similarly affected although to a lesser degree.

Without a general economic recovery the prospects in the service area are unlikely to improve in the short-term, however, in a period of recovery the service area of the Applicant should experience an above-average rate of growth.

There may be long-term benefits from the pause in growth as the slowing of market growth, in conjunction with the existing level of the firm power commitment from Cominco, will provide an opportunity for WKPL to properly position itself to meet the needs of its customers and shareholders. However, there is risk, as the existing commitment from Cominco expires in 1990.

II. THE APPLICATION

The original Application of August 22, 1983 proposed the amendment of filed rate schedules providing for a uniform increase of approximately 5% to be effective with all consumption on and after January 1, 1984.

On October 3, 1983 the Company amended the Application because of a refinement made to the calculation of the cost of capital, raising the increase to one of approximately 7.3%. This increase was granted by Commission Order No. G-85-83 dated November 28, 1983 to be effective January 1, 1984, on an interim refundable basis, pending the outcome of a hearing of the Application.

On January 9, 1984, prior to the hearing but after the Application had been set for hearing, the Application was further amended changing the total increase to 8.8% (Exhibit 4) to reflect a revised load forecast and other minor adjustments. Before the commencement of the hearing the Applicant reduced the overall increase to 8.1% (Exhibit 21), and later, during the hearing, further reduced the requested increase to 7.5% (Exhibit 21A). These adjustments were reflected, in the main, to the cost of power purchased from B.C. Hydro.

It is apparent from the number and relative importance of the changes in the rate relief applied for, and in other internal aspects of the Application, that the Applicant could significantly improve the quality of its Applications. The variation in the position of the Applicant on some major matters and in some of the supporting information raises serious concerns with the Commission and should also give rise to concern to the management of the Applicant. It cannot be in the best interests of the Utility or its customers that matters of such importance are subject to such significant shifts.

The Applicant must improve the accuracy of its forecast of sales volumes, revenues and expenses. The reliability of these data is extremely important in the planning of capital additions and in the purchase of power from Cominco, B.C. Hydro or any other supplier. This problem will be less significant when steps have been taken to resolve the uncertainty of availability of power purchases (in usable form) from Cominco and cost of power purchases from B.C. Hydro.

The practice of utilizing a forecast test period in a regulatory environment requires a careful estimation of the elements of costs and revenues to be achieved in the period or the practice has little value. It may be that the Applicant is treating the preparation of Applications and the supporting documentation in a more casual than careful manner or it may reflect problems within the Company. In fairness, however, the Applicant must have difficulty in ordering its own affairs because of its dependency on Cominco and on B.C. Hydro for power purchases. This difficulty can be overcome in large measure, by action to secure, at minimum incremental cost, reasonably priced long-term firm sources of supply or, if economic, by the construction of generation and transmission facilities or a combination of both.

On this point, the Applicant knows of the interest of consumers and the Commission in the considerable benefits to be gained from securing stable sources of power, yet little appears to be done. B.C. Timber expressed this concern in argument by referring to the Cominco/BPA equi-change agreement and the potential impact on West Kootenay by stating, "the utility simply does not pursue its interests in any situation where that of its parent Cominco are involved".

Similar concerns were expressed by the Consumers' Association which argued that:

> "The utility continues to stress the reasons why it cannot take advantage of circumstances which are presented to it and which could benefit its customers.
>
> It emphasizes the difficulties rather than the opportunities."

The Consumers' Association further argued that the existence of the recent agreement between Cominco and BPA was potentially adverse to West Kootenay and its customers. However, the main concern was that West Kootenay did not appear to be aware or interested in taking the same opportunity to protect its interests in Cominco's surplus power.

The Commission does not conclude that the problems of West Kootenay are the result of actions by Cominco. The Utility is in large measure responsible, not only for its relations with Cominco, but also for the general operation of its business. It appears, however, that WKPL is not as aggressive on its own behalf as it might be when dealing with matters involving its parent.

III. TEST PERIOD

The test period used by the Applicant utilizes the forecast year commencing January 1 and ending on December 31, 1984.

IV. RATE BASE

The Decision now deals with several components of the rate base for the test period.

1. Additions to Plant in Service

The Applicant proposed additions to plant in service amounting to $13,769,000 (Exhibit 1, Tab 6, Page 10). The additions shown had not all received approval by the Board of Directors but in the opinion of management were needed to maintain reliability and extend service. However, experience from the previous applications in 1982 and 1983 has shown that there were significant "under-expenditures" on plant in service compared to that forecast. These under-expenditures amounted to approximately 18% in 1982 and 21% in 1983.

The Commission is concerned that this not be repeated at the expense of the customers. The need to minimize capital expenditures for economic reasons only increases the need for care. Accordingly, the Commission has reduced the Applicant's estimated additions to plant in service by 10%.

2. Deferred and Other Charges

The Applicant proposed that certain items related to the prior year, not yet in service nor likely to be fully operational at December 31, 1984, be included in the test year rate base. Those items are dealt with as follows:

(a) 1983 Expenses Deferred

These include "Programming" costs of $68,288 and "Hot Line Training" costs of $43,136. The Commission has concluded that these costs are more properly classified as expense items in the year they are incurred and they have therefore been deleted from the test year rate base.

(b) 1984 Work in Progress

The Commission concludes that the "Improved Financial Reporting System" expenditure of $118,167 has the potential to be of significant benefit to the Company. However, the expenditure should be considered work in progress until the system is fully operational. In view of the difficulties experienced with the billing system, the Commission will carefully review the value received upon completion.

In future the Commission directs that the accounting treatment for items such as those covered by (a) and (b) above would be more appropriately done through an accounting order rather than as part of a general rate review.

(c) Allowance for Funds Used During Construction

The Commission heard evidence from the Applicant with respect to the treatment of Allowance for Funds Used During Construction (AFUDC) arising from the treatment of this matter in the Decision of May 31, 1983. Following an Application by WKPL and pending the hearing of the issue, the Commission on November 24, 1983 granted "permission to West Kootenay Power to capitalize in a Deferral Account, before December 31, 1983, an amount of $455,000 which results from the calculation of AFUDC. The final disposition of this account is to be determined following reconsideration of this issue during the next WKPL general rate proceeding".

The Commission finds that WKPL should be compensated for AFUDC for the 1983 fiscal year in accordance with its intention in the May, 1983 Decision. The question arises, however, of the proper amount to be included.

In its 1983 Application, WKPL estimated AFUDC of $455,000 based upon its anticipated 1983 Capital Expenditure Plan and this amount was utilized by the Commission in the letter of November 24, 1983. Subsequently, primarily as a result of capital expenditures lower than those forecast, the Commission was informed that WKPL had only accumulated $148,350 in the account in 1983 with the result that the Utility over-estimated AFUDC by $306,650.

The Commission concludes that the Company should not be compensated for an amount resulting from an inaccurate forecast and, accordingly, finds that the amount which will fully compensate the Applicant is $148,350 related to the actual capital expenditures in 1983.

(d) Generation Study

In view of the fact that additional studies are underway as part of a generation study, the Commission directs that the costs of such study should remain in rate base until such time as the studies are completed. In order that the completed study be of maximum benefit it should include an assessment of the potential market of WKPL and the various options available to meet that market. At completion, a decision can be made whether the cost of the study should be amortized in the cost of service or incorporated as part of the cost of plant.

(e) Research and Development Tax Credits

The Applicant purchased Research and Development tax credits in 1984 which were reflected in the cost of service to be passed on to consumers. The Applicant is clearly attempting to minimize its cost of service and this is to be encouraged in all aspects of its regulated business. However, this particular matter raises the question of the treatment of investments made, or activities entered into, which are not directly related to the regulated service but which it is hoped will produce a positive benefit to the Company. This does not always occur and certainly it would not be fair to give the benefit of successful investments to the customers while attributing similar but unsuccessful investments to the shareholders.

Accordingly, since the Commission believes that the purchase of the Research and Development tax credits is not related to the utility operations, the benefit or risk has been removed from the consideration in utility operations and will go to the shareholders.

It is sometimes difficult to distinguish between regulated and non-regulated activities and this problem can be compounded if the non-regulated aspect could impair the financial integrity of the regulated service. However, this does not apply in these circumstances. If the transaction had been one which could have affected the financial integrity of the Utility or even depended on it for success the decision might have been different.

V. COST OF SERVICE (EXCLUDING RETURN)

The initial Application (August 22, 1983) provided a forecast of expenses for the year ending December 31, 1984 to which amendments were made during the course of the hearing.

It is not unusual that adjustments must be made in the Application as the hearing develops, or that items can arise during cross-examination which, after further consideration by an Applicant, require adjustment. Every effort should be made during the preparation of the material to minimize this eventuality.

The changes to the current Application were of such significance that had the Commission rendered a decision on the initial Application significant over-earnings would have occurred. An under-estimation of expenditures would have been equally damaging for a significant decline in earnings would have been to the detriment of the customers, shareholders and the financial integrity of the Applicant.

In reviewing the cost of service as amended, the Commission finds that certain adjustments or comments are required with regard to the following matters:

1. Power Purchases

In addition to its own generation the Applicant anticipates that it will purchase 605 Gwh from Cominco on a firm basis and 76 Gwh from B.C. Hydro pursuant to Schedule 3807. This Agreement, the "Ad Hoc" agreement, has been approved by Order No. G-95-83 on an interim basis. However, for the purpose of this Decision it has been considered as firm with any adjustment, if required, to be made later, pending the resolution of the status of Schedule 3807.

The price for both firm and interruptible power purchased from Cominco is determined under the Surplus Power Agreement. It provides that Cominco estimate the price to be paid for the year which is then adjusted to reflect actual cost by January 31 of the following year. The Applicant then either receives from or pays to Cominco the difference in price, if any. The matter of the cost of "spillage" in that calculation is considered separately in this Decision.

As stated, the B.C. Hydro power is purchased under Schedule 3807 at a price of 30 mills/kWh. The Schedule contains a provision that if power is available from BPA at spill rates B.C. Hydro will meet the BPA price adjusted for foreign exchange. Purchases were made in 1983 at a price of 9 mills (U.S.) which on conversion was equivalent to approximately 11 mills Canadian.

In this proceeding the Applicant reduced the estimated cost of power from approximately $12.0 million to $9.7 million reflecting both lower than anticipated power requirements and the reduced costs of power purchased from B.C. Hydro at BPA spill rates.

The Commission considers that there is a probability of further purchases of such power in the test period and has further reduced power purchase costs from B.C. Hydro by $150,000.

2. Wheeling

In addition to purchasing power from B.C. Hydro, WKPL has also entered into or operates under certain wheeling agreements. These are the Koch Creek Agreement, the General Wheeling Agreement (not filed with the Commission) and the Ad Hoc Agreement, which underlies Schedule 3807 which tariff is subject to Order No. G-95-83.

For the purpose of this Decision the Commission has accepted as reasonable the estimated wheeling cost put forward by the Applicant but recognizes an adjustment may be required if WKPL is successful in the dispute related to Schedule 3807. On the basis of the evidence in this proceeding the refund to the Applicant could be as high as $626,000. The resolution of this matter may require that an adjustment be made.

3. Operating and Maintenance Expenses

(a) Controllable Expenses

Operating and maintenance expenses are forecast at approximately $14,416,000 in fiscal 1984 compared to an amount of $12,822,000 in fiscal 1983. In the Application expenses are distinguishable between controllable and uncontrollable expenses. Expense categories of uncollectible accounts, leased vehicle rentals, insurance, rate application expenses and rental of head office were classified as uncontrollable, leaving a pool of controllable costs of $12,960,000. This amount was an increase of 9.3% over the comparable amount in 1983.

The Commission finds the Applicant's disclosure of 'controllable' and 'non-controllable' categories useful in an understanding of the area. However, the disclosure of an escalation factor of 9.3% on 1983 controllable costs raises concerns. An increase of this magnitude results in an increase in revenue requirements of $1,100,000, approximately 25% of the total requested rate increase.

The Applicant gave evidence that wage and salary increases of 5% in 1983 and 4% in 1984 were granted with an unspecified increase for management scheduled for 1984.

The Commission recognizes the need to ensure a high quality of service and to pay competitive wages in relationship to industry at large, however, care must be taken to ensure that advantages are not being taken of the Applicant's special status as a regulated industry.

It is general knowledge that commercial and industrial enterprises have withheld salary and benefit increases and, in some cases, even reduced salaries and benefits to remain viable in these difficult economic times. The Commission is aware that industries facing "de-regulation" have had to make such adjustments in order to remain competitive.

The Applicant is asked to give consideration to similar actions for wages and salaries which may be high by industrial standards. In the alternative, programs to increase productivity such as a longer work week, more productivity in the existing work week or a reduction on overtime and call-out rates should be considered.

Approximately one half of the increase in the labour component is made up of a phased-in addition of 16 employees to the payroll, the full year impact of which would not be experienced until 1985. The balance of the increase is due to contracted rate increases and to increases in salary level for management staff.

The following table provides data drawn from Exhibit 73 and indicates the major accounts giving rise to the increase.

Controllable O & M Expenses (Major Increases)	
System control	$202,000
Distribution maintenance	
Supervision and engineering	157,000
Overhead lines	87,000
Customer accounts	
Meter reading/billing	117,000
Records/collections	131,000
Administration/general	
Engineering salaries	55,000
Accounting salaries	73,000
Engineering expenses	65,000
Accounting expenses	73,000
Special services	36,000
	$996,000

In considering the Applicant's forecast of cost escalations, the Commission reviewed 1983 forecast expenditures with recorded expenditures. At an earlier rate hearing the Applicant had forecast the spending of $12,324,000 on controllable operating and maintenance expenses during fiscal 1983, an increase of 6.3% over the preceding year. The

Applicant actually spent $11,850,000, maintaining that lower expenditures were the result of actual sales being lower than forecast sales. The Applicant's demonstrated ability to change the level of expenditure with sales shows the extent to which this category of costs is controllable in response to changing business circumstances.

In the current Application the Applicant has made a downward adjustment to its 1984 sales forecast of approximately 4% without a parallel adjustment to controllable operating and maintenance expenses.

After consideration of the evidence, and in particular the Applicant's experience, the Commission concludes that a reduction should be made and has adjusted the operating and maintenance expenses downward by $325,000. After taking this adjustment into account, controllable operating and maintenance is still forecast to increase by 4% over the previous year's level.

(b) Leased Vehicle Rental

The Commission has considered the evidence advanced to support the $174,000 increase in "Leased Vehicle Rentals" and is satisfied that the Applicant has approached this expenditure with care. This is demonstrated by the results of the 'lease versus buy' study provided in response to an information request. The increase in the expense is caused by the lease of additional new vehicles and replacement of old vehicles with an aggregate capital value of $570,000. A discounted cash flow analysis over a 5-year amortization period demonstrated that it was marginally less expensive to lease than to buy, provided that the implicit interest rate in the lease alternative was 12.75% and the interest rate of the debt instrument was 13.75%.

(c) Rate Application Expenses

The Commission is concerned with the magnitude of the costs being incurred by the Applicant in this current matter.

The Commission believes that significant initiatives could have been taken to reduce the cost of this proceeding. As referred to earlier, the opportunity exists to significantly improve the quality of the Application which will reduce the costs for all parties.

An aspect of the preparation of the hearing material which has disturbing implications came to light during the hearing. This occurred when it was revealed, during cross-examination, that the aggregate value of certain items of plant to be disposed of in the test period was simply estimated and then prorated back to specific items. The result was an amount of $734,000 utilized to indicate, by BCUC account number, disposals of certain items of transmission, distribution and general plant (Exhibit 2, Tab 6, Page 12). The method of obtaining the total number may have been the best available in the circumstances, however, there was no indication of the derivation of the total or individual amounts. The explanation that the method used was "Strictly for expediency sake, let's take $734,000 and prorate it over the assets" is not satisfactory. More hearing time than necessary was required to clear up a matter which should have been largely self-explanatory in the evidence.

The costs incurred by WKPL for the work performed by General Appraisal of Canada Limited ("General Appraisal") have been disallowed primarily because of the failure of the Applicant to utilize the Acres study which, in the opinion of the Commission, would have provided adequate information and supporting data related to the treatment of Plants No. 2, 3 and

4. The balance of the evidence in this area was not sufficiently useful to justify inclusion in the cost of service.

Because of its concern over the level of costs, and reflecting the quality of the evidence, the Commission will disallow the recovery of certain costs additional to those incurred by General Appraisal. In this respect the Commission approves the costs incurred by the Applicant from Clarkson Gordon & Co., Foster Associates, and Lawson, Lundell, but has reduced the remaining costs of the Applicant to be recovered in rates by 25% to reflect the quality of the Application. The recovery of the Commission's costs has also been reduced by 25% to reflect the savings that could have occurred in hearing costs had the Application proceeded more expeditiously. In summary, the costs to be recovered from the rates are approximately $263,000, while those written-off to the shareholders are approximately $102,000.

The Consumers' Association et al, represented by R.J. Gathercole, asked for costs in the hearing. The Commission considers the costs of $13,473.67 reasonable and will allow these costs because of the contribution of that group of intervenors to the hearing.

The appropriate treatment of the costs incurred with regard to the "Rate Design" hearing will be considered in that Decision and dealt with in the next revenue requirement hearing. In the interim, the Applicant's estimated costs and those of the Commission will be included in the rate base with the appropriate adjustments having been made on Schedules I and II.

4. Municipal and Other Taxes

The Applicant forecasts an increase of approximately 4% in the average mill rate for the test period. This amounts to an increase of $159,000. Intervenors argued that this was an unrealistic increase in view of efforts by the Province to keep such increases to a minimum. The Commission is also concerned that the estimate not follow the preceding year's experience which saw a significant over-estimation of property taxes. The Commission has therefore halved the amount projected and will reduce the forecast increase in average mill rate to 2%.

5. Depreciation

The Applicant had been aware that the book value of certain assets utilized in transportation and production was not appropriate in view of the remaining life of the assets. The acquisition of Plants No. 2, 3 and 4 from Cominco in 1982 also added to the pressure to perform a comprehensive depreciation study. The Applicant engaged General Appraisal of Canada Limited, a subsidiary of the American Appraisal Company, a company which had extensive experience in this field, and some earlier involvement in appraisals of West Kootenay's assets, to perform the work.

In the Application, West Kootenay seeks to modify its rates of depreciation so that Plant No. 1 and the newly acquired Plants No. 2, 3 and 4 will be fully depreciated in the same time frame. The treatment will require the establishment of depreciation rates on the newly acquired plants that differ from those on Plant No. 1. Furthermore, the Applicant has proposed a re-allocation of accumulated depreciation as at December 31, 1983 reflecting an over-provision in respect of certain assets.

In support of its proposal the Applicant utilized the "remaining life method". This method takes into account the original cost, the accumulated depreciation to date, net salvage value and the remaining useful life in order to determine the proper rate of depreciation to be applied. The Commission considers this method to be consistent with its practice as embodied in the Uniform System of Accounts.

For existing plant (excluding Plants No. 2, 3 and 4) the aggregate provision for depreciation for 1984 under existing rates would be \$3,648,098. The Applicant proposed to reduce this to \$3,169,771. The proposed adjustment results from a reassessment of remaining life and is intended to correct a situation where over-depreciation has occurred on hydraulic production plant. The major adjustment for existing plant occurs with the Transmission and Distribution categories, where annual depreciation expense would be decreased by approximately \$388,000.

For Plants No. 2, 3 and 4 the Applicant proposes depreciation rates that would expense the cost of the plants over 30-32 years. The plants were acquired on December 31, 1982. This is the first year that depreciation is to be taken on the plants.

(a) <u>Production Assets: Plants No. 2, 3 and 4</u>

The Applicant's consultant recommended that the Applicant utilize the rates of depreciation which would reflect a remaining useful life of 30-32 years for all of the production assets. The recommendation was based upon experience of plants of similar vintage. The estimate of remaining useful life rested upon an assumption that the turbines and generators would last only another 30 years, thereby putting a limit on the useful life of the entire plant. This approach treats the entire plant as a unit and should the "weakest link" in the unit fail the remaining useful life would end. The method would require a review at, say, five year intervals with a possible future adjustment to rates of depreciation. The witness remained firm that the best estimate that could now be made was that the remaining useful life of the plant at the present time was in the order of 30 to 35 years.

The Commission considers that there are other factors that have a direct bearing on the proper course to follow:

(i) The physical and economic life of the plants are influenced by the Canal Plant Agreement. The operation of the Canal Plant by B.C. Hydro, and the use of the entitlement to power by WKPL, results in reduced operating levels at the WKPL plants on the Kootenay River. This, by itself, will extend the useful life of the running gear in the plants which must, at all times, be maintained in good working order under the Agreement.

(ii) In 1978 a study of the appraisal value of Plants No. 2, 3 and 4 was performed by Acres Limited for Cominco. This study was reviewed in a public hearing in 1979 with the assistance of Shawinigan Engineering Ltd. While not specifically tested in this proceeding the Acres study differed substantially from the General Appraisal study in respect of the remaining useful life of some of the critical components of the plants.

The foregoing points (i) and (ii) demonstrate that the useful life of Plants No. 2, 3 and 4 are in excess of the 30 years as recommended by the Applicant's consultant. In the setting of depreciation rates for these plants the Commission accepts the findings contained in the Acres study, tested at a previous proceeding. Rates for depreciation for Plants No. 2, 3 and 4, Production Plant, will therefore be as contained in Appendix A and B of the Decision.

(b) Production Assets: Plant No. 1, Accounts #330-346

The Acres study did not include reference to Plant No. 1, a plant owned and operated by the Applicant since 1898, and rebuilt in 1925. The existing rates of depreciation for reservoirs, dams and waterways is 1% per annum; for structures and improvements 1.5%; and for other hydraulic production plant 2.5%. Use of the 2.5% rate has resulted in over-depreciation for "other power plant equipment".

In view of the higher than necessary historical rates of depreciation for the accounts, "Accessory Electrical Equipment" and "Other Power Plant Equipment", resulting in these accounts being fully depreciated as at December 31, 1984, some correction appears necessary.

The Applicant has proposed that all the accumulated depreciation amounts and depreciation rates be adjusted effective December 31, 1983, such that the plant will be written-off over the next 30 years.

In reaching an assessment of the remaining useful life of Plant No. 1 the Commission has concluded that the remaining life attributable to Plants No. 2, 3 and 4 as recommended by the Acres study should be applied to Plant No. 1 except for those accounts that are fully depreciated. It is a matter of public record that the age of Plant No. 1 is close to the average age of Plants No. 2, 3 and 4. Additionally the Canal Plant Agreement links the economics of the four plants. The Commission cannot conclude that the remaining useful life of

Plant No. 1 is any less than the others. The rates of depreciation to be applied are contained on Appendix A.

The proposed adjustments to re-allocate opening accumulated depreciation, which depend on the rates recommended by the Applicant on certain assets associated with Plant No. 1 are also rejected.

(c) Transmission, Distribution and General Plant

For the foregoing reasons, the Commission does not accept a re-allocation of accumulated depreciation as at December 31, 1983.

In the Commission's opinion the Applicant did not put forward compelling reasons to warrant a change from existing rates of depreciation. Existing rates are, on average, higher than the proposed rates and this will assist the Applicant in its cash generation. The Commission, in the face of uncertainty with respect to remaining useful life, prefers the adoption of conservative accounting practices.

(d) General Comments

As stated above, the Commission considers the use of the remaining life method to be consistent with its policy. Revisions in depreciation rates, must sometimes be made to recognize the uncertainties surrounding the estimations that go into determining a depreciation rate at the time an asset first goes into service. It follows that periodic reviews are necessary and these should be carried out at regular intervals to ensure that proper depreciation rates are applied.

6. Amortization Utility Plant Acquisition Adjustment - Account #114

Pursuant to the "Sale of Surplus Power Service and Exemption Order" dated July 28, 1982, the Applicant acquired from Cominco Plants No. 2, 3 and 4 for $20 million, with the purchase price allocated in the books of account between real property, dams and equipment, and buildings.

Information provided by the Applicant indicated that a premium of $11.9 million had been paid over "net book value on the utility basis", leaving a net book value of $8.1 million as at December 31, 1983.

During cross-examination the Applicant admitted that the premium had not been accounted for in accordance with the "Uniform System of Accounts for Electric Utilities" wherein Account #114, Utility Plant Acquisition Adjustment, is described to include "the difference between purchase price of plant acquired as an operating unit or system, and original cost when first devoted to public utility service after allowance for depreciation, amortization, and contributions and grants".

It is the Commission's belief that the acquisition premium should be accounted for in accordance with the Uniform System of Accounts and that an amount of $11.9 million be transferred to Account #114. The adjusted cost of the assets has been determined on an apportionment basis consistent with the Applicant's approach and the values are shown on Appendix A. Consistent with the issuance of the Certificate of Public Convenience and Necessity, the unamortized balance will be a part of Rate Base and the utility customers will bear the tax consequences, i.e., non-deductibility for tax purposes.

The Commission is concerned with the Applicant's non-compliance with the Code of Accounts in recording this matter in its accounts. This is the second time in as many hearings such an omission has been revealed by the evidence. The Commission stresses that compliance with the Code of Accounts is fundamental to expeditious hearings and any uncertainty with respect to categorizing an expenditure or cost should be settled before it becomes an issue in a public hearing.

In the circumstances the Commission finds that the premium is a legitimate part of the cost of the assets devoted to utility service and hence the amortization rate must be consistent with the weighted rate of depreciation for similar plant items.

VI. INCOME TAXES

1. Background

The method of accounting for income taxes by WKPL was raised by intervenors in a hearing in 1982 and deferred because of a lack of proper notice. In a Decision of May 31, 1983, the Commission decided that the complexity of the matter warranted a separate review and as a result the issues were fully addressed in evidence in this hearing of the revenue requirement Application.

The Applicant has followed the "deferred" or "normalized" method of accounting for income tax since 1955 and has accumulated a deferred tax balance of approximately $9.3 million as at December 31, 1983. The issue to be dealt with is whether or not it is in the public interest of WKPL and its customers that the Utility be allowed to continue to account for income taxes on the "normalized" method.

The Applicant retained the services of Mr. R. Scott, Chartered Accountant, who provided expert opinion evidence and was supported by Mr. J. Brook, Vice-President, Finance of WKPL. Dr. Sherwin, rate of return witness for WKPL, also gave his views on the issue. The Commission also heard expert opinion evidence from Mr. H. Johnson, Chartered Accountant and Dr. W.R. Waters on behalf of the City of Kelowna, B.C. Timber Ltd. and other municipal and industrial intervenors.

The Commission issued a Decision of December 20, 1983 dealing with a similar issue in respect of Inland Natural Gas Co. Ltd. and Columbia Natural Gas Limited which directed a change in the method of accounting for income taxes from the normalized method to the "flow-through" method.

The Commission has considered the issues under the following headings: accounting authority, recovery of legitimate costs, inter-generational equity, costs of deferred tax, and as general matters the customers' ability to pay, "price signals" and the impact of a change on the Applicant's ability to finance additions to plant.

2. The Issues

(a) Accounting Authority

In a substantial body of evidence, Mr. R. Scott recounted the history of income tax accounting in Canada. He gave evidence that the current position of the Canadian Institute of Chartered Accountants (CICA) is that a proper matching of revenues to costs is achieved by the allocation of income taxes according to accrual accounting of income transactions. This is the nature of the "normalized or deferred" tax treatment and is the method that non-regulated business is obliged to follow, except for companies whose revenues are set under long-term contracts established on a cost of service basis.

Mr. Scott's professional view was that the CICA regards deferred taxes as the "preferred" treatment and he argued that this is so primarily on the basis of consistency of treatment among industrial companies and for consistency over time. He also pointed out that the Applicant has accounted for taxes on the normalized or deferred basis for the past 30 years.

Evidence was also introduced with respect to the CICA Handbook, paragraph 3470.57. That paragraph prescribes normalized tax accounting in general but makes specific allowance for the taxes payable (flow-through) basis in the situation of a regulated utility where the regulating body only allows the recovery of taxes currently payable in the rates. In that situation the taxes payable basis matches costs and revenues provided there is "a reasonable expectation that all taxes payable in future years will be included in the approved rate or formula for reimbursement and recoverable from the customer at that time".

In the circumstances of WKPL and the system of regulation in British Columbia the Commission has concluded that a "reasonable expectation" exists that taxes payable in future years will be recoverable from customers at that time.

The Commission has considered the evidence with regard to the application of the rules to be applied by reference to provisions of paragraph 3470.57 of the CICA Handbook and concludes that there is no constraint on WKPL or the Commission in utilizing either method of accounting for income taxes.

(b) Recovery of Legitimate Costs

This issue centres on whether deferred taxes represent a current liability or a contingent liability.

The facts are, that to December 31, 1983 the Applicant has accumulated some $9.3 million in deferred income taxes from its customers. This balance has been built up steadily since 1955. In addition, the Applicant submitted Exhibit #6 which gave the year 1999 as the first year in which deferred tax might become payable if no capital expenditures are made after 1992.

In weighing the evidence presented, the Commission has concluded that deferred tax represents a liability only under certain circumstances.

(c) Inter-generational Equity

Inter-generational equity has been interpreted to mean:

> "...the assessment of whether or not pricing structure will require the customers in different time periods to pay different amounts, in real or purchasing power terms, for the same service. If the same purchasing power is required to obtain the same service in different periods, the pricing structure is considered to be equitable with respect of the various generations of users."

The Commission considers that any questions of inter-generational "inequity" which might result from a move to flow-through taxes and the shift of a tax burden to future customers must be viewed in the context of costs associated with a declining rate base. The Commission concludes that a shift in tax treatment would be essentially neutral in any impact on inter-generational equity and that the shifting of such costs, if any, in the case of WKPL consumers is not signficant.

(d) Cost of Collecting Deferred Tax

WKPL did not disagree with the general view that the collection of deferred taxes is unduly expensive for the consumer and therefore an inefficient source of capital for the Utility. It took the position, however, that such costs to consumers were offset by advantages gained from having the deferred tax credit reflected in equity. In terms of the opportunity costs of capital this provided an offset to the cost to the consumers of the deferred tax payment.

The Commission has concluded that although deferred taxes, when treated as a deduction from rate base, are zero cost capital to the Company, it is high cost capital to the customer for three reasons:

(i) At the Company's tax rate of 52% for each dollar of deferred tax collected, an additional $1.08 must be collected for income taxes.

(ii) All fees and taxes which are revenue-based are increased by deferred tax and this increase is passed on to the consumers.

(iii) Most customers pay utility bills with "after tax" dollars whereas the Utility is able to obtain its funds to finance needed capital additions with "before tax" dollars.

(e) Customers' Ability to Pay

The provincial economy has been in a severe recession for a considerable period of time. While the customers' ability to pay cannot be an overriding factor on which a decision can be based, it is a consideration. In the circumstances of a change to "flow-through" taxes some benefits will flow to existing customers.

(f) Price Signals

The Applicant's costs and revenues are finely balanced marginally because the cost of incremental energy per kWh from B.C. Hydro exceeds the average tariff revenue per kWh. The adequacy of the tariff is therefore very sensitive to any increase in load which must rely on power supplied by B.C. Hydro.

The Applicant argued that "flow-through" income tax treatment would lower rates thereby giving customers the impression that rates would be permanently lower. This would translate into a severe revenue deficiency if conservation efforts were to be relaxed. Rate design, it was argued, could not mitigate this impact. Given a set of assumptions, evidence was advanced to show that within five years, rates under "flow-through" would climb back and in fact surpass the rates under deferred taxes.

It is not clear to the Commission whether the incremental load will be supplied by B.C. Hydro at 30 mills per kWh, Cominco or other parties. The Applicant is currently having discussions with parties on future power purchases and at this time the identity of the supplier and the price is unknown.

The Applicant gave evidence that it was seeking remission of 95% of the Federal income tax payable and all of the Provincial income tax, as is done in Alberta. Mr. Brook stated that if the Applicant was successful and was able to take the income tax refund into account it would be able to develop a stronger financial structure by reducing leverage and improving interest coverage while still maintaining considerably lower costs to its customers. This would produce a lower effective rate to the customers than that resulting from the adoption of flow-through income tax.

(g) Impairment of Ability to Finance Growth

This issue is discussed under two categories:

(i) Effect of Taxation Accounting on Credit Rating

The Commission concurs that in certain circumstances a change from "deferred taxes" to "flow-through" may increase the difficulty and cost of raising funds to meet the needs of a utility. However, this aspect cannot be viewed in isolation from the capital markets, the future growth prospects for the Applicant, its need for funds in relationship to its capital base and other factors.

(ii) Ability to Finance Expansion of Generation Capability

The Applicant introduced evidence to indicate the borrowing capacity that would be remaining after a change to "flow-through" and after the borrowing contemplated in the 1984 Application. Some $13 million would remain, assuming a 15.5% rate of return on equity.

The Applicant contended that a change to "flow-through" would make it virtually impossible to raise external funds for any new generation plant.

The Commission agrees that future profitability as well as debt service ability are necessary ingredients in any expansion plan. It is likely that if the funds can be raised at all, they can be raised just as readily under "flow-through" as under "deferred" tax accounting.

The Commission views the change to "flow-through" as having a neutral impact upon the Applicant's ability to raise external funds. It is noted that the existing 10-year capital program did not include additional generation.

3. Decision

For the reasons as discussed above, the Commission has found that the public interest will best be served with a change to "flow-through" accounting for income tax purposes for the Applicant. The change is to occur effective August 1, 1984. The balance of deferred income taxes on the books of the Applicant as at July 31, 1984 will remain and be included in the capital structure as zero cost capital.

VII. RATE OF RETURN

Dr. Stephen F. Sherwin, Executive Vice-President of Foster Associates, Inc., gave evidence on the fair return on common equity for the Applicant. Dr. Sherwin's criteria can be summarized as follows:

> "The economic principles governing the determination of a fair return are encompassed by the opportunity cost concept. The fair return represents reasonable

> compensation to the owners of the property in light of the risk characteristics -- both business and financial -- to which the property is exposed. The return should be commensurate with that achieved by other firms of similar risk; it should be sufficient to permit the attraction of new capital on reasonable terms, and to maintain the Company's financial integrity.
>
> The concepts of cost of attracting capital, financial integrity, and fair return are interrelated, but not synonymous. The cost of attracting capital is the cost per dollar of new capital. Its primary function is to provide an incentive for channeling scarce capital resources into productive employment.
>
> The concept of financial integrity, in a narrow sense, relates to achieving a level of earnings sufficient to maintain interest coverage ratios which permit utilities to raise debt capital on reasonable terms. When the concept of financial integrity is expanded to encompass the maintenance of capital values, it becomes a measure of the fair return.
>
> ...Fair return (is) a level of earnings that enables a utility to (a) raise new equity capital without diluting the existing stockholders' investment and (b) maintain the value of its investment -- in terms of market to book ratios -- at a level approximating that achieved, in the longer run, by similar risk industrial stocks."

Dr. Sherwin anchored his recommendations on the comparable earnings test applied to industrials.

Although the Applicant had changed significant aspects of the data for the forecast test period, Dr. Sherwin expressed a reluctance to modify his recommendation. His rationale was that in the context of regulating on a forecast basis the data utilized in a hearing must be the best evidence at the time of the forecast and should be that used by the regulator. However, Dr. Sherwin acknowledged that an estimation of an appropriate return made on the basis of the higher interest rates and improved corporate profits existing at the time of the hearing would cause him to recommend an increase in return on equity slightly over that in the direct testimony. While

Dr. Sherwin did not change his "base" recommendation as to the return on equity, the recommendation made was based on preparation in March 1984 rather than October 1983, the range would have been increased by one quarter of a point to 16.25% to 16.75%.

The recommended range of return on equity is 16.0% to 16.5% on the assumption that the Applicant remains on the "normalized" method of accounting for income tax. This range would increase by not less than one quarter of a point to offset a loss of normalized taxes.

The Commission agrees with Dr. Sherwin's premise as to the fluid and competitive nature of the capital markets and the necessity for consideration on the broadest basis. In the case of the Applicant only the debt instruments must compete as the equity stock is all held by related companies. However, the equity holders are nonetheless entitled to the opportunity to earn a return commensurate with the risks assumed.

Dr. Sherwin compared the risk of the Applicant in relation to that of Canadian Utilities, TransAlta and Newfoundland Light and Power. He concluded that the first two were low risk utilities, with Newfoundland Light and Power an average risk and the Applicant, a higher risk.

According to Dr. Sherwin the three electric utilities had received recent approvals that would allow those utilities to achieve prospective returns of 16.0%, 15.25% and 16% respectively.

In a comparison with natural gas utilities in British Columbia, it was Dr. Sherwin's opinion that the Applicant had a lower risk (unquantified) than Inland Natural Gas Co. Ltd. and a lower risk than Pacific Northern Gas Ltd. by approximately one half of 1%. This assumed that the Commission approved weather normalization and deferred cost of power accounts, both of which would tend to reduce the volatility of earnings and shareholder risks.

Dr. Sherwin also discussed forecasting risk and a supply risk associated with the cost of power. These risks are related to a failure to achieve the anticipated revenues or to unanticipated power purchase expenses, both of which may increase the volatility of earnings. As the proportion of purchased power increases the associated risk will increase. The Commission has considered both the forecasting and supply risks and believes that the Applicant itself has increased these risks from what they might otherwise be.

While in economic terms the economy of Canada lags the United States; that of British Columbia lags Canada and West Kootenay's service area lags British Columbia; Dr. Sherwin felt that there were prospects for improvement. Dr. Sherwin also discussed whether a special risk was attached to businesses operating in British Columbia. He concluded that although this might have existed in the past, the current climate in the Province did not support this view and in arriving at his recommendation he had not incorporated an increased risk for this factor.

With specific reference to the service area Dr. Sherwin indicated that the lack of an industrial base in the WKPL service area made it more difficult for the Applicant in comparison with Alberta utilities. While this creates problems for WKPL there are also opportunities for the Utility to take action to encourage industrial development by providing encouragement and assistance for businesses wishing to locate in the service area. A new business with an appropriate load profile could improve the overall operating load factor of the Utility.

The supply risk can be overcome by building or acquiring additional generation. If additional generation can be shown to be in the public interest the Commission would ensure that prudent measures were taken to minimize the risk and the impact on rates in the initial years. It would also be necessary to maintain the financial integrity of the Applicant to ensure that it could attract funds on beneficial terms.

Dr. Sherwin asked that an increase in return also be considered on the basis that the interest rate he had forecast was significantly lower than those being experienced and, an upward adjustment should be made from the 15.4% approved in the 1983 Decision. On the basis of the existing interest rates the investor's longer term expectation of the "core" rate of inflation is 8% while the immediate expectation ranges from 4.8% to 5.2% or an average 5%.

The Commission acknowledges that dramatic changes have taken place in current interest rates and recognizes that Dr. Sherwin's analysis is an attempt to predict the average rate of return on equity to be achieved in the next business cycle.

A conclusion that the core inflation rate would remain at 8% over the next business cycle might require an upward adjustment in the rate of return to the levels recommended by Dr. Sherwin. However, it appears to be premature to determine either the direction of interest rates in the next business cycle or the duration of the cycle. In the short-term, rates will likely be higher than those existing in March 1984, however, this is of little assistance in determining the rates which might apply during the next business cycle.

In considering the risks of this utility and hence the appropriate rate of return on equity the Commission has considered the evidence of Dr. Sherwin including the examination and argument advanced by the intervenors, which argument ranged from a position of reducing the existing allowed return to maintaining it at its current level.

The Commission concludes that action can be taken by management to reduce some of the risks perceived by Dr. Sherwin. The largest current risk to utilities in general is that of fluctuating interest rates, from which the shareholders of this utility are protected through a Deferral Account.

In summary, and taking into account all of the foregoing including the argument and examination of the intervenors, the Commission concludes that in the present circumstances of WKPL, an increase in the rate of return on common equity is warranted and accordingly has determined that the Utility should have the opportunity to earn a return of approximately 15.75% on equity. This rate of return on equity, within a range of 15.5% to 16.5% should be sufficient to allow WKPL to earn a fair and reasonable compensation for its service.

VIII. OTHER MATTERS

A number of other matters related to weather normalization, spillage and customer concerns require discussion.

1. Weather Normalization

The Applicant has proposed that an account be established that would insulate the earnings of the Company from fluctuations in weather, stating:

> "The single most important factor in the Company's application for rate relief is the forecast of sales for the test year. This sales forecast is based upon weather conditions which replicate long term historical conditions. However, it is uncommon for actual weather conditions to exactly duplicate the long term average.
>
> As such, the Company's revenue from sales, as well as its expenses (primarily due to power purchases) may deviate significantly from forecast."

The Company proposes that operation of the Deferral Account be as follows:

> "Each month variations in weather conditions will be normalized and the resulting net revenue transferred to the deferral account. This deferral account will be included in rate base.
>
> Given a subsequent application for rate relief, the balance in the deferral account at the date of the application will be included in forecast rate base, and the Company's revenue requirement will be in(de)creased by the average return on rate base times the positive or negative balance on the account.
>
> In subsequent years, a series of debits and credits should be expected to be posted against this account. Given the proper working of the account, over the long term, the balance on this account would be zero and not directly affect the Company's return or the consumer rates.
>
> However, if a protracted period of abnormal weather results in a large (positive or negative) balance on the account, it is proposed that one-half the amount, at date of application, be netted directly against revenue requirement, while the remainder would stay in rate base."

The proposed adjustment would relate to Residential, Residential Electric Heat, Irrigation, General Service and Wholesale classes but exclude Large General Service, Industrial and Lighting. The revenue adjustment would be made raising the trailing block while the expense adjustment would be predicated upon marginal cost of energy for the month.

The purpose of the proposed account is to smooth out year to year changes with the long run balance at zero. The problem is not unique to West Kootenay but is common to any business or public utility where the level of demand is affected by weather.

In considering the matter the Commission has taken into account the complexity of calculations, fairness to all classes of customers, the Applicant's difficulty with the current changes to its system and the degree to which shareholders of a utility should be shielded from normal business risks. On this latter point the Commission is reluctant to provide "insurance" against forecasting error or lack of foresight in planning power purchases. The Commission has therefore concluded primarily because of the latter point, that the establishment of a Weather Normalization account is not in the public interest.

2. Spillage

This matter is before the Commission in these proceedings for resolution following a complex chain of events requiring a brief explanation.

The Commission initially expressed concern over the inclusion of "spillage" in the formula which determines the cost of power purchased by WKPL from Cominco in a hearing by the Commission of a WKPL revenue requirement application in 1983. In a

Decision of May, 1983 dealing with the revenue requirements of WKPL, the Commission concluded that there was no contractual obligation on WKPL to pay a cost of power which included costs resulting from the inclusion of "spillage".

The 1983 Decision found that in 1982 WKPL paid Cominco $715,000 more than forecast for power purchase due, in large part, to the inclusion of spillage in the calculation of the price and directed that WKPL recover the portion of that amount related to spillage for lack of market. In the Decision the Commission disallowed an amount of $411,000 estimated to represent such spillage in 1983. In 1984 the comparable amount is estimated at $321,000.

WKPL contends that it is contractually bound to incorporate spillage as a part of the calculation of the purchase price for surplus power and requested that the Commission resolve the matter through a Stated Case to the Court of Appeal under Section 122 of the Act. The Stated Case was prepared and filed and was to be heard November 23, 1983. On November 23, 1983, with the consent of all parties, the Stated Case was adjourned, indefinitely, so that the matter could be fully examined by all interested parties at a hearing before the Commission. The matter was therefore opened for discussion within the hearing of the revenue requirement application to be dealt with by this Decision.

In evidence both WKPL and Cominco took the position that the actual generation or entitlement use was appropriately used in the calculation which results in the unit price paid for power purchases.

A critical number, and the one underlying problem in this matter, is that representing energy output. WKPL and Cominco assert that the number must represent the actual output after adjustments for "spillage" occasioned by planned outages for maintenance or repair, or forced outages or shutdowns where there is no market or requirement for energy from the two plants. A lower actual output number results in a higher average cost of production per unit. Incorporating spillage for lack of market in the calculation results in WKPL paying a price for purchased power from Cominco which price is higher than it would otherwise be if spillage adjustments were limited to those occurring because of planned outages or forced outages as specified in the Canal Plant Agreement.

The extension of the definition of what constitutes spillage which has occurred since 1979 has the effect of requiring the purchaser, WKPL, to assume costs associated with maintaining a "high load factor" on Cominco's Plants No. 5 and 6 in the event of losses of domestic export markets or a decline in its own requirements for power produced by these two plants.

The May, 1983 Decision found that there was no contractual obligation which justified this treatment of the matter and the resultant cost to WKPL. As stated, the matter is before the Commission again to allow the parties to develop more fully the issue.

The Applicant, supported by Cominco, takes the position that the calculation of the price of purchased power from Cominco has always been determined based on actual generation or its equivalent, entitlement use.

With regard to the price mechanism used in the calculation, it has components dating back to 1958, the first time a significant amount of power was purchased by the Applicant from Cominco. The base price in this Agreement was $1 per kW of capacity and 3 mills/kWh for energy, which price has remained in effect or formed a basic component of the price from 1958 to date except for a minor water fee adjustment. This price did not vary with the utilization of the facilities. In the 1970s lease agreements replaced purchases to some extent but the effective price remained the same.

It does not appear to the Commission that a variable spillage factor was included nor, from reviewing the evidence of a previous hearing in 1976, that any form of spillage was involved in the calculation of the cost of power at that time.

In the material submitted at the 1983 hearing it is apparent from the calculations supporting the price that two distinct types of spillage were included, one involving forced and planned outages and the other, loss of markets.

In this proceeding additional evidence was given that "spillage" due to lack of market was incorporated in the 1974 year. This calculation was different from the calculations used to determine the cost of power in the WKPL Application predicated upon a 1974 historic test year (Exhibit 4, Item 1-C, 1976 Hearing).

In Exhibit 4 of this proceeding a hypothetical spill due to requirement of 567.9 Gwh appears in 1974; however, this is derived using a calculation made without consideration of the Canal Plant Agreement which became effective in 1975. If the assumed generation is disregarded and only actual generation and maintenance shutdown considered the spill due to lack of markets is effectively eliminated.

As mentioned previously, the aforementioned price calculations are contained in the Sale of Surplus Power Agreement dated November 21, 1980 and specifically in paragraph 1, subsection (e) and Schedule One of the Agreement.

The paragraph states that "...the price shall be recalculated by substituting Cominco's actual* average cost of producing power from Plants No. 5 and 6..." whereas the Schedule states "...calculated using the principles employed by Cominco and West Kootenay to calculate the rate of 1.934 mills per kilowatt hour".

Needless to say, if the principles referred to in Schedule One had been clearly set forth the current dispute would not have arisen. Nevertheless, the Commission believes that even though an omission appears to have been made in the Sale of Surplus Power Agreement the public interest requires that this be rectified and a proper consideration of spillage be included in the calculation of the cost of power. However, the compensation to Cominco should not extend to the point that WKPL provides a form of insurance against loss of utilization of Plants No. 5 and 6 by Cominco due to labour disruptions or loss of market for its product. This is particularly important in view of the fact that the Applicant is not permitted to purchase the power for resale outside its service area and hence is deprived of an opportunity to reduce the impact of increased costs resulting from a lower utilization of Plants No. 5 and 6.

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*emphasis supplied

However, in the circumstances, it would appear reasonable that Cominco not have to bear the entire cost of "spillage" related to loss of markets for power which in the normal course of events would be surplus to Cominco and WKPL requirements. The Commission believes that it is in the interest of Cominco, the Applicant and its customers that this matter be resolved in a fair and equitable manner and not be the subject of further dispute.

In most circumstances a utility is permitted to recover in its rates under-utilization of facilities or spillage and even though Cominco is not a utility pursuant to its Exemption Order the Commission believes it would be unfair and unreasonable in this circumstance to deprive Cominco of this benefit. The Utility and its customers will also benefit by the ongoing support of Cominco in providing the maximum amount of power in the most usable pattern, increased rate stability and reduced regulatory costs.

In addition to the specific problem related to spillage for lack of market, disputes could also arise in the future with regard to "forced outages" and outages due to maintenance. Again, it would be in the interest of all parties if this could be averted.

It appears to the Commission that the current and potential problems could be avoided if a fixed allowance were made to represent spillage (to commence January 1, 1983), exclusive of that resulting from labour disruptions or lack of market for Cominco's products, and this amount incorporated into the calculation of the estimated and actual costs of power produced from Plants No. 5 and 6. This suggestion is similar in concept to the method used to determine the maintenance allowance pursuant to the Canal Plant Agreement and the strike normalization adjustment incorporated in the rates of certain investor-owned gas utilities.

Over-earnings and under-earnings might occur but over the course of the life of the Agreement the parties would be treated in a fair and equitable manner.

In these circumstances, the Commission will continue the deferral of the actual 1983 costs, and for the purpose of this Decision, without prejudice, defer the cost of spillage, on the basis currently calculated, in the hope that a fair and practical solution can be achieved within 90 days from this Decision. If a satisfactory resolution is not achieved at the end of the 90 day period the Commission will consider whether the deferral should be continued or the whole amount disallowed.

The Commission directs that WKPL report in 90 days from the date of this Decision, or such shorter period as may be appropriate, on its progress in resolving this matter.

3. Consumer Participation

The Commission heard submissions from a number of individuals who appeared on their own behalf and spoke as representatives of groups of consumers. These individuals all made a useful contribution to the process of examining the Application and the need for increased rates by the Applicant.

Some specific concerns were expressed over the billing procedures, including the ease of understanding the bills and access to documents and information related to the Rate Applications. Other concerns were expressed over the size, complexity and expense of hearing applications to increase rates. The Nelson Rod and Gun Club raised questions of the establishment of a sinking fund to replace existing facilities at the end of the useful life of the facilities and a special levy against utility revenue to replace lost fish stocks.

The Commission shares the concern of consumers over what seems to be an unnecessarily complex bill and the impact of the bi-monthly billing procedure. The Applicant has indicated that it proposes an equal monthly billing program by mid-1985. Hopefully this step can be incorporated into a simplified billing procedure.

The Commission can do little to enforce a program to restore fish stocks affected by hydro-electric development now past. This is an area which is properly within the jurisdiction of other agencies of government. These are legitimate concerns, however, and they should be raised with appropriate Ministries.

4. Hearing Procedures

Solutions to questions related to the complexity, size and cost of rate proceedings cannot be found easily. The nature of the utility business is complex and customers have a right to know why and how rates are increasing. The Commission is concerned over the rising costs of rate applications and hearings and is taking steps to reduce these costs. The hazard, however, is that the interests of the consumer in achieving a full disclosure of the need for the increase will be overridden by the need to economize. The Commission acknowledges the concern and interest of the participants in this area and has referred the matter to the full Commission.

IX. CONCLUSION

In order to implement this Decision several steps are necessary.

The Applicant is granted a permanent increase in customer rates of approximately 3.71% effective as of January 1, 1984 and, since this increase is less than that granted on an interim refundable basis pursuant to Commission Order No. G-85-83, a refund of approximately 3.59% plus appropriate interest is ordered with regard to consumption in the period January 1, 1984 to July 31, 1984. The refund required is approximately 50% of the interim increase granted.

In order to reflect the change in method of accounting for income tax and the above change, permanent rates are approved for all consumption on and after August 1, 1984, which are approximately 8.53% lower than those in effect on an interim basis on January 1, 1984.

DATED at the City of Vancouver, in the Province of British Columbia, this 5th day of July, 1984.

J.D.V. NEWLANDS, Deputy Chairman

R.J. LUDGATE, Commissioner

One-Sided

BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-37-84

PROVINCE OF BRITISH COLUMBIA

BRITISH COLUMBIA UTILITIES COMMISSION

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

and

IN THE MATTER OF Applications by West Kootenay Power and Light Company, Limited

BEFORE:	J.D.V. Newlands, Deputy Chairman, Chairman of the Division; and R.J. Ludgate, Commissioner	July 5, 1984

O R D E R

WHEREAS a public hearing pertaining to West Kootenay Power and Light Company, Limited ("WKPL") proceeded before this Commission at Rossland, B.C. February 14 through 24, 1984 and at Kelowna, B.C. March 5 through 15, 1984 to hear, inter alia, Applications dated August 22, 1983, as amended October 3, 1983, January 9, 1984 and February 13 and 15, 1984 for increases to its filed Tariff Rate Schedules; and

WHEREAS pursuant to Order No. G-85-83 WKPL was granted an interim refundable increase of 7.3% effective January 1, 1984; and

WHEREAS the Commission has considered the Applications and the evidence adduced thereon, all as set forth in a Decision issued concurrently with this Order.

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

1. The Rate Base and Revenue Requirement for the Test Year ended December 31, 1984 are as set out in Schedules contained in the Decision.

2. West Kootenay Power is to proceed with refunds to its customers of record in the period January 1, 1984 through July 31, 1984, as specified in the Decision of the Commission issued concurrently with this Order. Such refunds are to include interest calculated as specified in Order No. G-85-83.

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BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-37-84

3. West Kootenay Power is to amend its method of accounting for income taxes from "normalized" to "flow-through" effective August 1, 1984, and the balance of deferred income taxes recorded in its books as at July 31, 1984 will remain and be included in the capital structure as zero cost capital.

4. The Commission will accept for filing effective August 1, 1984, subject to timely filing, amended Tariff Rate Schedules to reflect a reduction of approximately 8.5% from those customer rates in effect on an interim basis on January 1, 1984 arising from the implementation of the "flow-through" method of accounting for income tax and other matters noted in the Decision issued concurrently with this Order. A reconciliation schedule is required to be filed concurrently.

5. West Kootenay Power will comply with the several directions incorporated in the Commission Decision and specific attention is to be given to the following:

   (a) the matter of spillage in the formula which determines the cost of power purchased by WKPL from Cominco to be reported on to the Commission not later than 90 days from the date of the Commission Decision;

   (b) WKPL to pay to Mr. R.J. Gathercole, representing the Consumers' Association of Canada (B.C. Branch) et al, the sum of $13,473.67 being the costs of their intervention in the proceeding.

DATED at the City of Vancouver, in the Province of British Columbia, this 5th day of July, 1984.

BY ORDER

Deputy Chairman
Chairman of the Divison

SCHEDULE I

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Forecast Rate Base for 1984

	Per Application (Ex.1,T6,P2)	Applicant's Adjustments	Amended (Ex. 91)	Commission Adjustments	adjustment #	Adjusted Balance
PLANT IN SERVICE (END OF YEAR)	$153,277,549		$153,277,549	($13,288,900)	(1)	$139,988,649
Add-acquis'n adj. #2,3&4			0	$11,912,000	(2)	11,912,000
-plant held/future use	360,000	(100,000)	260,000			260,000
- deferred rate design & rate case expenses	284,769		284,769	91,333	(3)	376,102
-other deferred charges	560,905	769,000	1,329,905	(242,243)	(4)	1,087,662
	154,483,223	669,000	155,152,223	(1,527,810)		153,624,413
Less- accum. depreciation	38,485,518	83,184	38,568,702	(140,216)	(5)	38,428,486
-amort. acct. 114			0	186,125	(6)	186,125
-gain on bond purch.	10,480		10,480			10,480
-sale of head office	103,525		103,525			103,525
-contributions/const.	9,773,245		9,773,245			9,773,245
GROSS END/YEAR IN SERVICE	48,372,768	83,184	48,455,952	45,909		48,501,861
DEPRECIATED RATE BASE	106,110,455	585,816	106,696,271	(1,573,719)		105,122,552
Depr. rate base for previous year	97,210,142	832,180	98,042,322	(561,360)	(7)	97,480,962
MEAN DEPR. RATE BASE	101,660,299	708,998	102,369,297	(1,067,540)		101,301,757
Add- allowance for working capital	3,700,000	(895,639)	2,804,361	895,639	(8)	3,700,000
Less- adjustment for major additions	689,000		689,000			689,000
DEPRECIATED RATE BASE FOR REGULATORY PURPOSES	$104,671,299	($186,641)	$104,484,658	($171,901)		$104,312,757
CONSTRUCTION IN PROGRESS AT DECEMBER 31 (Exh. 1, Tab 6, Pg. 3)	$7,301,000	$0	$7,301,000	$118,167	(7)	$7,419,167

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Notes to Schedule I

1.	Segregation adjustment per note (2)	$(11,912,000)
	Reduce forecast 1984 plant additions by 10% (Exhibit 1, Tab 6, Page 10)	(1,376,900)
		$(13,288,900)
2.	Segregate acquisition adjustment in Rate Base per BCUC Account #114	
	Value equals $20 million less $8.088 million. (Net book value per letter of April 4, 1984)	$ 11,912,000
3.	1984 Rate Design costs. Maintain the full amount of rate design costs in Rate Base pending future disposition (Exhibit 1, Tab 5, Page 18)	$ 91,333
4.	Remove, from end of year rate base, debt issue costs associated with postponed new issue. (Exhibit 1, Tab 6, Page 4)	$(161,875)
	Add spillage costs pending disposition (see Schedule II, Note 1)	$ 321,000
	Remove $455,000 for Allowance for Funds Used During Construction from end of year rate base (Exhibit 91)	$(455,000)
	Add back amortization of generation study, the costs of which are to be part of rate base pending disposition (Exhibit 1, Tab 6, Page 4)	$ 93,632
	Removal of the unamortized depreciation study costs (Exhibit 1, Tab 6, Page 4)	$(40,000)
		$(242,243)
5.	Reduction to accumulated depreciation due to Commission adjustments per Decision, as tabulated on Appendix A	$(140,216)
6.	To set up the accumulated amortized balance of acquisition adjustment Account #114. Acquisition adjustment of $11,912,000 divided by 64, per Appendix B	$ 186,125

Notes to Schedule I
(cont'd)

7. Reduction to beginning of year rate base for:

-programming costs (Exhibit 91)	$(68,288)*
-hot line training (Exhibit 91)	$(43,136)*
-financial reporting costs (Exhibit 91)	$(118,167)
-allowance for funds used during construction ($455,000 less actual of $148,350) (Exhibit 56)	$(306,650)*
-depreciation study (Exhibit 91)	$(25,119)
	$(561,360)

8. To reverse the impact of the Research and Development Income Tax credit (Exhibit 91) $ 895,639

*1983 expense items = $418,074

SCHEDULE II

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Income and Earned Return

	Per Application (Ex.1,T6,P2)	Applicant's Adjustments	Amended (Ex. 91)	Commission Adjustments	adjustment #	Adjusted Balance
SALES (mWh)	2,038,900	(79,100)	1,959,800			1,959,800
Requested avg. mills/kWh	28.8		29.1	-2.6		26.6
% rate increase	7.3%		7.5%	-9.4%		-1.9%
Electricity revenue						
Existing avg. 26.9 mill	$54,770,829	($1,736,860)	$53,033,969			$53,033,969
Discounts & interest	529,070	(8,070)	521,000	0		521,000
"Revenue deficiency"	4,036,892	1,664	4,038,556	($5,030,295)		(991,739)
Miscellaneous revenue	743,234		743,234	0		743,234
TOTAL REVENUE REQUIREMENT	60,080,025	(1,743,266)	58,336,759	(5,030,295)		53,306,464
OPERATING COSTS						
Power purchased	12,042,000	(2,385,250)	9,656,750	(520,000)	(1)	9,136,750
Wheeling	78,000	626,000	704,000			704,000
Rents	200,905		200,905			200,905
Operating & Maintenance:						
-Uncollectible accounts	245,000		245,000			245,000
-Leased vehicle rentals	362,596		362,596			362,596
-Insurance	199,326		199,326			199,326
-Rate case expense	457,896		457,896	(86,333)	(2)	371,563
-Rental of head office	191,267		191,267			191,267
-Gross payroll+material	13,062,730	(103,000)	12,959,730	(489,502)	(3)	12,470,228
Total O & M	14,518,815	(103,000)	14,415,815	(575,835)		13,839,980
Water fees	5,229,622		5,229,622			5,229,622
Municipal & other taxes	4,510,819		4,510,819	(79,000)	(4)	4,431,819
Depreciation	3,514,710	83,184	3,597,894	(140,216)	(5)	3,457,678
Amortization	38,461		38,461	186,125	(6)	224,586
TOTAL OPERATING COSTS	40,133,332	(1,779,066)	38,354,266	(1,128,926)		37,225,340
Earnings from operations	19,946,693	35,800	19,982,493	(3,901,369)		16,081,124
Other income	455,993		455,993	(194,845)	(7)	261,148
Amort. of gain on bonds	121,219		121,219			121,219
Earnings before interest and taxes	20,523,905	35,800	20,559,705	(4,096,214)		16,463,491
INCOME TAXES	7,086,586	25,826	7,112,412	(3,667,153)	SHED. III	3,445,259
EARNED RETURN	$13,437,319	$9,974	$13,447,293	($429,061)		$13,018,232
UTILITY RATE BASE	$104,671,299	($186,641)	$104,484,658	($171,901)	SCHED. I	$104,312,757
RETURN ON RATE BASE	12.84%		12.87%	-0.39%	SCHED. V	12.48%

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Notes to Schedule II

1. Adjustment to power purchases to reflect the following:

-Removal of forecast 5% escalation in B.C. Hydro rates per Schedule 3807 (Exhibit 4, Sch. 4)		$(49,000)
-Adjustment to provide for further B.C. Hydro purchases at BPA spill rates (Exhibits 21 & 21A)		$(150,000)
-To defer cost of spillage		
	Mills/kWh	
Cominco Power Cost (Exh. 1, Tab 5, Pg. 10)	10.256	
Water Fees (Exh. 1, Tab 12, Pg. 6)	0.451	
Total	10.707	
Approved Cost (Exh. 80)	10.176	
Deferred	0.531	
Deferred Costs (based upon forecast purchases)		
605 GWh x 0.531 m/kWh = (Exh. 4, Tab 1, Sch. 4)		$(321,000)
Total		$(520,000)

2. Adjustments to Rate Application expenses. Costs allowed by the Commission of $263,000, less Rate Application expenses per Application of $258,000 (Exhibit 1, Tab 5, page 18) — $ 5,000

Reversal of amortization of Rate Design Costs pending disposition, see Schedule 1, Note 3 — $(91,333)

$(86,333)

3. Adjustments to operating and maintenance expenses

-remove amortization of programming costs (Exhibit 1, Tab 6, Page 4) — $(61,140)

Notes to Schedule II
(cont'd)

	-remove amortization of generation study, see Sch. 1, Note 4	$(93,632)
	-remove amortization of depreciation study, (Exhibit 1, Tab 6, Page 4)	$(10,000)
	-general disallowance	
	$11,855,000 (Exh. 73) + $136,000 (amounts to be expensed in 1983 per Schedule 1, Note 7) x 1.04% = $12,470,000	
	Less:	
	$12,959,730 (Exh. 91) less $165,000 = $12,794,730 (other items in this adjustment	$(324,730)
		$(489,502)
4.	Adjustment to Municipal Taxes to allow for a 2%, rather than 4% increase in mill rate (Exhibit 1, Tab 5, Page 19)	$(79,000)
5.	See Schedule 1, Note 5	$(140,216)
6.	See Schedule 1, Note 6	$ 186,125
7.	Other Income	
	-decrease other income to reflect write-off of AFUDC per Schedule 1, Note 7	$(148,350)
	-to write-off accrued deferred interest as at December 31, 1983 (Exhibit 91)	$(46,495)
		$(194,845)

<u>SCHEDULE III</u>

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

<u>Calculation of Income Tax on Utility Income</u>

		Per Application (Ex.1,T2,P3)	Applicant's Adjustments	Amended (Ex. 91)	Commission Adjustements	adjustment #	Adjusted Balance
Earnings bef. interest and income taxes		$20,523,905	$35,800	$20,559,705	($4,096,214)		$16,463,491
Deduct:							
Amortization of deferred credits		224,744		224,744			224,744
Interest on debt (on rate base)		7,302,655	(13,022)	7,289,633	($238,091)	(1)	7,051,542
		12,996,506	48,822	13,045,328	($3,858,124)		9,187,204
Add:							
Amortization on plants 2,3, and 4 not claimable for income tax purposes		399,686		399,686	(213,561)	(2)	186,125
Income for tax purposes		13,396,192	48,822	13,445,014	(4,071,685)		9,373,329
Deduct: net timing differences	A	(2,960,916)		(2,960,916)	213,084	(3)	(2,747,832)
TAXABLE INCOME	B	$10,435,276	$48,822	$10,484,098	($3,858,601)		$6,625,497
Deferred tax provision A*52.9%		1,566,325	0	1,566,325	(1,566,325)	(4)	0
Current tax provision B*52.9%		5,520,261	25,827	5,546,088	(2,100,829)	(5) 52%	3,445,259
TAX PROVISION		$7,086,586	$25,827	$7,112,412	($3,667,154)		$3,445,259

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Notes to Schedule III

1. Interest on debt

   6.76% (Sch. V) x Rate Base

2. See Schedule I, Note 6

3. Net timing differences (Exhibit 1, Tab 2, Page 4)

-Depreciation and amortization per Schedule II	$3,682,264	
-Deduct: Amortization per Note (2)	186,125	
		$ 3,496,139
Amortization of deferred charges		582,800
CCA (after 10% reduction on 1984 additions)		(4,715,734)
Current additions to deferred charges (spillage)		(321,000)
Capitalized Overhead		(1,517,000)
Capitalized Interest (after 10% reduction)		(273,037)
		$(2,747,832)

4. Removal of deferred tax per Decision

5. Use of statutory rate for 1984

SCHEDULE IV

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Common Equity as at December 31, 1984

	Per Application (Ex.1,T9,P1)	Applicant's Adjustments	Amended (Ex. 91)	Commission Adjustments	adjustment #	Adjusted Balance
Common equity at Dec. 31,1983	$37,614,297	$0	$37,614,297	($418,074)	(1)	$37,196,223
Add: forecast net earnings on total capitalization	6,337,194	22,996	6,360,190	(214,494)		6,145,696
Less: Write-offs	0		0	(142,000)	(2)	(142,000)
Less: forecast dividend payments						
- common	(2,765,000)		(2,765,000)			(2,765,000)
- preferred	(35,000)		(35,000)			(35,000)
Forecast balance at December 31, 1984	$41,151,491	$22,996	$41,174,487	($774,568)		$40,399,919
Mid-year common equity	$39,382,894		$39,394,392	($596,321)		$38,798,071

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Notes to Schedule IV

1.	See Schedule I, Note 7	$(418,074)
2.	To write-off unrecoverable Rate Application Costs per Decision	$(102,000)
	To write-off depreciation study costs per Schedule 1, Note 4	(40,000)
		$(142,000)

SCHEDULE V

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Forecast Capital Structure

(Ex.1,Tab9,P1)	ADJUSTED Balance at Dec. 31,1983	ADJUSTED Forecast at Dec. 31, 1984	ADJUSTED Forecast Average 1984	% of capital structure	Return $	Rate %	Average cost of capital %
Deferred income taxes	$9,340,519	(1) $10,174,028	$9,757,274	9.08%			0.00%
DEBT:							
First mortgage bonds	5,218,000	4,968,000	5,095,000	4.74%	$292,963	5.75%	0.27%
Secured debentures - series A	10,000,000	10,000,000	10,000,000	9.30%	$1,325,000	13.25%	1.23%
- series B	10,000,000	10,000,000	10,000,000	9.30%	$1,433,000	14.33%	1.33%
- series C		0	0	0.00%	$0	13.62%	0.00%
Subordinate debenture	15,000,000	15,000,000	15,000,000	13.96%	$2,224,500	14.83%	2.07%
Bank loans	16,123,000	(2) 24,360,960	(3) 18,320,730	17.05%	$1,996,960	10.90%	1.86%
	56,341,000	64,328,960	58,415,730	54.35%	$7,582,362	12.98%	6.76%
EQUITY:							
Preferred shares	500,000	500,000	500,000	0.47%	$35,000	7.00%	0.03%
Common shares	37,196,223	40,399,919	38,798,071	36.10%	$6,110,696	15.75%	5.69%
Total equity	37,696,223	40,899,919	39,298,071	36.57%	$6,145,696	15.64%	5.72%
TOTAL CAPITALIZATION	$103,377,742	$115,402,908	$107,471,075	100.00%	$13,728,058		12.48%

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Notes to Schedule V

1. Beginning balance of $9,340,519, add 52% of $2,747,832 (Schedule III) x 7/12

2. Short Term Debt

Forecast per Applicant (Exhibit 1, Tab 9, Page 1) with proposed Series C treated as short-term	$ 23,746,000
Add - deferred tax not accrued Aug to Dec, 1984	595,363
Less - Rate Base Adjustments (Schedule I)	(171,901)
Add - Difference between net earnings per Application and per Decision ($6,337,194 - $6,145,696)	191,498
TOTAL	$ 24,360,960

3. Forecast per Applicant (Exhibit 1, Tab 9, Page 1) $ 18,013,250

Add - 50% deferred tax, rate base and net earnings adjustments	307,480
	$ 18,320,730

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED
Income and Earned Return
Deferred Tax Case

	Per Application (Ex.1,T6,P2)	Applicant's Adjustments	Amended (Ex. 91)	Commission Adjustments	adjustment #	Adjusted Balance
SALES (mWh)	2,038,900	(79,100)	1,959,800			1,959,800
Requested avg. mills/kWh	28.8		29.1	-1.0		28.1
% rate increase	7.3%		7.5%	-3.8%		3.7%
Electricity revenue						
Existing avg. 26.9 mill	$54,770,829	($1,736,860)	$53,033,969			$53,033,969
Discounts & interest	529,070	(8,070)	521,000	0		521,000
"Revenue deficiency"	4,036,892	1,664	4,038,556	($2,053,477)		1,985,079
Miscellaneous revenue	743,234		743,234	0		743,234
TOTAL REVENUE REQUIREMENT	60,080,025	(1,743,266)	58,336,759	(2,053,477)		56,283,282
OPERATING COSTS						
Power purchased	12,042,000	(2,385,250)	9,656,750	(520,000)	(1)	9,136,750
Wheeling	78,000	626,000	704,000			704,000
Rents	200,905		200,905			200,905
Operating & Maintenance:						
-Uncollectible accounts	245,000		245,000			245,000
-Leased vehicle rentals	362,596		362,596			362,596
-Insurance	199,326		199,326			199,326
-Rate case expense	457,896		457,896	(86,333)	(2)	371,563
-Rental of head office	191,267		191,267			191,267
-Gross payroll+material	13,062,730	(103,000)	12,959,730	(489,502)	(3)	12,470,228
Total O & M	14,518,815	(103,000)	14,415,815	(575,835)		13,839,980
Water fees	5,229,622		5,229,622			5,229,622
Municipal & other taxes	4,510,819		4,510,819	(79,000)	(4)	4,431,819
Depreciation	3,514,710	83,184	3,597,894	(140,216)	(5)	3,457,678
Amortization	38,461		38,461	186,125	(6)	224,586
TOTAL OPERATING COSTS	40,133,332	(1,779,066)	38,354,266	(1,128,926)		37,225,340
Earnings from operations	19,946,693	35,800	19,982,493	(924,551)		19,057,942
Other income	455,993		455,993	(194,845)	(7)	261,148
Amort. of gain on bonds	121,219		121,219			121,219
Earnings before interest and taxes	20,523,905	35,800	20,559,705	(1,119,396)		19,440,309
INCOME TAXES	7,086,586	25,826	7,112,412	(690,335)	SHED. III	6,422,077
EARNED RETURN	$13,437,319	$9,974	$13,447,293	($429,061)		$13,018,232
UTILITY RATE BASE	$104,671,299	($186,641)	$104,484,658	($171,901)	SCHED. I	$104,312,757
RETURN ON RATE BASE	12.84%		12.87%	-0.39%	SCHED. V	12.48%

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Calculation of Income Tax on Utility Income
Deferred Tax Case

	Per Application (Ex.1,T2,P3)	Applicant's Adjustments	Amended (Ex. 91)	Commission Adjustments	adjustment #	Adjusted Balance
Earnings bef. interest and income taxes	$20,523,905	$35,800	$20,559,705	($1,119,396)		$19,440,309
Deduct:						
Amortization of deferred credits	224,744		224,744			224,744
Interest on debt (on rate base)	7,302,655	(13,022)	7,289,633	($238,091)	(1)	7,051,542
	12,996,506	48,822	13,045,328	($881,306)		12,164,022
Add:						
Amortization on plants 2,3, and 4 not claimable for income tax purposes	399,686		399,686	(213,561)	(2)	186,125
Income for tax purposes	13,396,192	48,822	13,445,014	(1,094,867)		12,350,147
Deduct: net timing differences A	(2,960,916)		(2,960,916)	213,084	(3)	(2,747,832)
TAXABLE INCOME B	$10,435,276	$48,822	$10,484,098	($881,783)		$9,602,315
Deferred tax provision A*52.9%	1,566,325	0	1,566,325	(137,452)	(5) 52%	1,428,873
Current tax provision B*52.9%	5,520,261	25,827	5,546,088	(552,884)	(5) 52%	4,993,204
TAX PROVISION	$7,086,586	$25,827	$7,112,412	($690,336)		$6,422,077

WKP&L DEPRECIATION CALCULATION* 1984 *BY BCUC STAFF

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Calculation of Depreciation (Ex. 1, tab 7, pg. 3 & 4)

account series	description	original cost	acc. 114	*LETTER* 84.04.04 adjusted cost	accum deprec. @83.12.31	"A" nbv @84.01.01	"B" salvage value	"C" remaining life	BCUC 84 Expense A less B divide by C	charges less recoveries	accum. deprec. @84.12.31	WKP&L Proposed New rate 1984 expense	Existing Old rate 1984 expense	BCUC ADJUST-MENT WITH a/c114	Effective Depreciation % On Adj'd Cost
*******	****************	**********	**********	**********	**********	**********	**********	**********	**********	**********	**********	**********	**********	**********	**********
	Plants 2,3,&4							(Appendix B)						(BCUC-WKP&L)	
330.1	Land Rights	$442,000	$427,000	$15,000	$0	$15,000	$442,000			$0	0	0	0	0	0
331	Structures & Improve's	205,358	$120,592	$84,766	$0	$84,766	0	18	$4,709		4,709	7,413	7,413	(2,704)	5.6%
332	Reservoir Dams Waterws	9,732,600	$5,715,253	$4,017,347	$0	$4,017,347	0	76	$52,860		52,860	330,908	330,908	(278,048)	1.3%
333	W/wheels Turbines Gen	7,961,000	$4,674,920	$3,286,080	$0	$3,286,080	0	53	$62,002		62,002	278,635	278,635	(216,633)	1.9%
334	Accessory Equipment	116,500	$68,412	$48,088	$0	$48,088	0	11	$4,372		4,372	4,089	4,089	283	9.1%
335	Other Power Pl. Equip.	406,000	$238,414	$167,586	$0	$167,586	0	35	$4,788		4,788	14,291	14,291	(9,503)	2.9%
336	Road Railroad Bridge	590,100	$346,523	$243,577	$0	$243,577	0	60	$4,060		4,060	20,594	20,594	(16,534)	1.7%
350's	Transmission Plant	546,442	$320,886	$225,556	0	$225,556	-	25	$9,022	0	9,022	20,403	20,403	(11,381)	4.0%
	Total 2,3 & 4	20,000,000	11,912,000	8,088,000	0	8,088,000	442,000		141,812	0	141,812	676,333	676,333	(534,521)	
	Plant 1														
330.1	Land Rights	83,939		83,939	0	83,939	83,939			0	0	0	0	0	
331	Structures & Improve's	532,452		532,452	420,129	112,323	0	18	6,240		426,369	3,354	7,987	2,886	1.2%
332	Reservoir Dams Waterws	2,015,258		2,015,258	382,414	1,632,844	0	76	21,485		403,899	36,275	20,152	(14,790)	1.1%
333	W/wheels Turbines Gen	80,600		80,600	0	80,600	0	53	1,521		1,521	0	2,015	1,521	1.9%
334	Accessory Equipment	802,750		802,750	801,451	1,299	0	1	1,299		802,750	11,042	1,229	(9,743)	
335	Other Power Pl. Equip.	1,675,126		1,675,126	2,020,171	(345,045)	0				2,020,171	10,386	0	(10,386)	
		5,190,125	0	5,190,125	3,624,165	1,565,960	83,939		30,545	0	3,654,710	61,057	31,383	(30,512)	
340's	Other Production Plant	1,164,646		1,164,646	1,005,594	$159,052	0	5	35,336	0	1,040,930	16,669	35,336	18,667	3.0%
350's	Transmission Plant														
350.1	Land rights-r/w	920,186		920,186	0	$920,186	920,186			0	0				
	all other 350's	15,331,698		15,331,698	6,549,551	$8,782,147	-	25	353,715	(256,000)	6,647,266	296,425	353,715	57,290	2.3%
		16,251,884	0	16,251,884	6,549,551	9,702,333	920,186		353,715	(256,000)	6,647,266	296,425	353,715	57,290	
360's	Distribution Plant														
360.1	Land rights-r/w	260,264		260,264	0	$260,264	260,264				0			0	
370's	Meters, instal, lights	5,795,343		5,795,343	2,043,596	$3,751,747	-	15	254,327	(7,950)	2,289,973	207,726	254,327	46,601	4.4%
	all other 360's	81,799,203		81,799,203	18,943,806	$62,855,397	-	25	2,545,022	(254,550)	21,234,278	2,260,960	2,545,022	284,062	3.1%
		87,854,810	0	87,854,810	20,987,402	66,867,408	260,264		2,799,349	(262,500)	23,524,251	2,468,686	2,799,349	330,663	
	General Plant														
389	Land	520,883		520,883	0	$520,883	520,883				0			0	
390's	all other 390's	8,545,401		8,545,401	3,023,092	$5,522,309	-	13	428,315	(31,890)	3,419,517	410,118	428,315	18,197	5.0%
		9,066,284	0	9,066,284	3,023,092	6,043,192	520,883		428,315	(31,890)	3,419,517	410,118	428,315	18,197	
	TOTAL IN SERVICE	$139,527,749	$11,912,000	$127,615,749	$35,189,804	$92,425,945	$2,227,272		3,789,072	($550,390)	$38,428,486	$3,929,288	$4,324,431	($140,216)	
	CONTRIBUTIONS	$9,154,178							292,933			292,933	292,933	0	
	TOTAL DEPREC., AMORT.								3,496,139			$3,636,355	$4,031,498	($140,216)	

APPENDIX A

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Determination of Remaining Useful Life for Plants 2, 3 and 4
Using Acres 1978 Report Tables B-1 to B-3

(Cost of Reproduction New, Less Depreciation - CRNLD)*
($000's)

Acct. No.	Prime Account	#2		#3		#4		Weighted Remaining Life 2, 3 & 4	
		CRNLD*	RLV**	CRNLD*	RLV**	CRNLD*	RLV**	CRNLD*	RLV**
330	Land & Land Rights	nil	n/a	nil	n/a	$ 2,577	n/a	$ 2,577	n/a
331	Structures & Improvements	$ 153	14.0	$ 985	18.0	$ 141	19.0	$ 1,279	17.6
332	Reservoirs, Dams, Water Ways	14,006	86.7	18,550	62.2	29,817	79.1	62,373	75.8
333	Water Wheels, Turbines Generators	21,408	58.4	14,008	45.9	15,603	50.9	51,019	52.7
334	Accessory Electrical Equipment	335	12.5	215	10.7	197	10.3	747	11.4
335	Miscellaneous	1,100	35.7	782	32.5	720	36.9	2,602	35.1
336	Roads, Railways, Buildings	778	84.0	2,122	54.0	882	54.0	3,782	60.2
	Totals	37,780	68.2	$36,662	53.4	$49,937	68.2	$124,379	63.8

* Aggregate of CRNLD of Prime Account / Total CRNLD % x remaining life of Prime Account for each plant. This same method was used to combine the separate accounts making up the prime accounts.

** Remaining Life by Value (RLV)

APPENDIX B

RATE ADJUSTMENTS

Permanent Rates Effective January 1, 1984

Existing permanent electricity sales revenue (Schedule II)	$53,033,969
Discounts and Interest (Schedule (II)	521,000
Firm Sales Revenue	$53,554,969
Revenue Deficiency (Schedule VI)	$ 1,985,079
Increase Required	3.71%

Permanent Rates Effective August 1, 1984

Firm Sales Revenue at December 31, 1983 rates as above	$53,554,969
Add approved interim at 7.3%	3,909,513
Firm and Interim Revenues at July 31, 1984 rates	$57,464,482
Approved Revenue per Schedule III	
($53,033,969 + $521,000 - $991,739) =	$52,563,230
Rate reduction required on firm and interim rates at August 1, 1984	8.53%