

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

and

IN THE MATTER OF Applications by
Columbia Natural Gas Limited

DECISION

November 21, 1984

BEFORE :

J.D.V. Newlands, Deputy Chairman
and Chairman of the Division
D.B. Kilpatrick, Commissioner
R.J. Ludgate, Commissioner

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I. INTRODUCTION

Columbia Natural Gas Limited ("Columbia" or "the Applicant") applied on June 14, 1984, under Sections 67(2) and 106 of the Utilities Commission Act ("the Act"), for interim and permanent rate relief. The interim increase was authorized by Commission Order No. G-33-84 dated June 26, 1984 to become effective, subject to refund after hearing, on July 1, 1984. This increase permitted Columbia to offset estimated increased costs and the opportunity to earn 16.75% return on common equity, up from the existing approved rate of 15.75%. The interim award amounted to approximately \$747,000 or 2.19%.

Commission Order No. G-33-84 set down both Applications for public hearing to commence on September 25, 1984 in Cranbrook, B.C. Subsequently, the following events occurred:

1. Order No. G-36-84 dated July 11, 1984 approved the issue by Columbia of a five year Floating Charge Debenture to Inland Natural Gas Co. Ltd. (Columbia's parent company) in the amount of \$4 million bearing interest at a rate of $14 \frac{3}{8}\%$ plus cost of issue. This is the same rate as achieved by Inland Natural Gas Co. Ltd., in its recent public offering, adjusted to reflect issue costs.
2. Order No. G-49-84 dated July 27, 1984, approved a pass-through cost of gas increase of 0.21¢ per billing unit as a result of a 0.803¢ per gigajoule increase in the cost of Alberta natural gas and a 0.85¢ per billing unit increase in British Columbia natural gas. The large industrial tariffs are a two-part rate comprising the cost of gas purchased by Columbia plus the cost of service and are automatically adjusted.
3. On August 3, 1984, Columbia filed a revised Application seeking additional relief of approximately \$113,000, for a total increase of 2.50% over existing firm rates.

4. On June 20, 1984, Fording Coal Limited, a large industrial customer of the Applicant, filed a complaint under Sections 64 and 82 of the Act alleging that the Columbia rates to Fording Coal Limited were unjust, unreasonable and unduly discriminatory. By letter dated August 3, 1984 the Commission advised the Applicant and other interested parties that this complaint would be considered after the hearing of the Columbia Application for permanent rate relief.
5. On June 26, 1984, Crestbrook Forest Industries Ltd. ("Crestbrook") advised the Commission that it opposed the interim increase pursuant to Section 86 of the Act and in the alternative if the interim increase were granted asked that it be set aside under Section 106(3) of the Act. This application was denied.
6. On August 31, 1984 Crestbrook sought Leave to Appeal from the Court of Appeal of British Columbia on September 19, 1984. This was denied.
7. On October 4, 1984, in response to a "Motion" by Crestbrook, the Commission heard argument as to whether or not the interim should be set aside.

The Application of Columbia also sought approval of the construction of a major addition to the "Cranbrook lateral" and direction from the Commission with regard to the appropriate tariff to be applicable to a new Rate 5 to encompass large industrial customers. Currently these customers are served under individual contracts, the primary terms of which have expired, with the exception of the Fording contract which extends to December 31, 1986.

Due to the complexity of the matters involved, the Commission will render separate decisions with respect to the Fording complaint and in the matter of appropriate contracts and tariffs for the large industrial customers. Of necessity, due in large measure to the way the evidence was taken, some overlap may occur between this decision and those which follow.

Evidence for the Applicant was presented by Mr. C.I. Kleven, C.A., Vice President, Finance; Mr. G.M.O. Solly, P.Eng., Vice President, Operations; Mr. J.L. Randall, Vice President, Marketing and Utility Planning; Mr. J.O. Wessler, Manager, Regulatory Affairs and Mr. J.D. Ferguson, P.Eng., Manager of Gas Supply.

The Applicant retained Dr. Robert E. Evans, President of Economic Research Associates Limited, an independent consulting firm specializing in problems of regulated industries, to give evidence on the appropriate rate of return on common equity for the fiscal year ending June 30, 1985.

Industrial intervenors were Crestbrook Forest Industries Ltd. ("Crestbrook"), Cominco Ltd. ("Cominco"), Fording Coal Limited ("Fording"), and Westar Mining Ltd. ("Westar"). Both Crestbrook and Fording gave evidence. The Association of Kootenay & Boundary Municipalities filed a notice of intervention but did not appear. The District of Elkford wrote that the increase is unwarranted due to the depressed economic conditions in the area.

The proceedings, which required seven hearing days, commenced in Cranbrook, British Columbia on September 25, 1984 and concluded in Vancouver, British Columbia on October 4, 1984. Approximately half of the time was required to hear the evidence and argument with regard to the appropriate revenue requirements. The balance of the time was taken to consider the evidence and argument on the Fording complaint, evidence and suggestions on the proposed standard industrial contract, and argument on Crestbrook's Motion.

II. BACKGROUND

Columbia Natural Gas Limited ("Columbia") was incorporated on November 6, 1961 under the British Columbia Companies Act. It became a public company in 1962 and in 1973 reverted to a private company. During the intervening period, Columbia became wholly-owned by Norcen Pipelines Ltd. On July 9, 1979, Columbia became a wholly-owned subsidiary of Inland Natural Gas Co. Ltd.

In 1962, Columbia was granted a Certificate of Public Convenience and Necessity by the Public Utilities Commission of British Columbia and commenced the distribution of natural gas within the present communities of Cranbrook, Kimberley, Creston and Fernie. Since then, service has also been provided to the communities of Elkford, Sparwood and Yahk. In 1982, Columbia started serving the communities of Jaffray and Galloway, made possible by the Government of Canada's DSEP Program. In addition, Columbia serves five large industrial customers located within its general service area.

In 1965, Cominco Ltd., at Kimberley, converted certain of its operations to natural gas and since that time additional conversions have taken place. In 1968, natural gas service was extended 22 miles north of the Cranbrook-Kimberley transmission lateral to the Crestbrook Pulp and Paper Ltd. complex at Skookumchuck. Crestbrook is the Company's largest volume user of natural gas. In 1969, Crows Nest Industries Ltd. at Elko commenced using gas for lumber drying, under an agreement which extended through 1981. This has now been changed to a Schedule III contract. In 1969 and 1970, the industrial complex of Kaiser Resources Ltd., (now Westar Mining Ltd.), in the Sparwood area, was provided with natural gas service for use in coal drying. In 1971, the line to Sparwood was extended some 39 miles northward to serve the requirements of Fording Coal Limited and the Village of Elkford, with natural gas service commencing in 1972.

In 1980, Columbia built a transmission line to serve Galloway Lumber Company and Canada Cedar Pole Preservers Co. Ltd. at Galloway, B.C. In 1981, a line was built to serve requirements of Crows Nest Resources Ltd. at their Line Creek Coal Plant.

In 1982, Columbia commenced serving natural gas to the Greenhills operation of Westar Mining Ltd. and this load increased substantially in 1983.

Natural gas supplies are obtained from seven taps located on the export transmission pipeline of Alberta Natural Gas Company Limited. These taps are located at Sparwood, Fernie, Elko, Jaffray, Cranbrook, Yahk and Creston. Gas supply is contracted from Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited on a "cost-of-gas plus cost-of-service" basis at the taps or delivery points on the Alberta Natural Gas pipeline. In 1976, natural gas became available from Inland Natural Gas Co. Ltd. on an exchange basis with Alberta and Southern. This gas is provided through the East Kootenay Link on an "as available" interruptible contract basis.

The Application dated June 14, 1984 sought an increase of \$747,000 or 2.19% for the fiscal year ending June 30, 1985. This Application for permanent relief was subsequently amended by letter dated August 3, 1984 and raised by approximately \$113,000, mainly reflecting an increased cost of long-term debt.

The Application was well prepared and presented and permitted the hearing to proceed in an expeditious manner. Intervenors encountered problems, however, due to the Applicant's reclassification of accounts of which they had not been advised. The Commission will expect Columbia to avoid such problems in future applications.

A major issue arose during the course of the hearing pertaining to the need by the Applicant for the expenditure of \$1.5 million to increase the capacity of the Cranbrook lateral. During the course of the evidence it became apparent that without the assistance of Cominco Ltd. and Crestbrook in January of 1984, Columbia had insufficient capacity to meet its load due to reduced pressures available from its primary supplier, Alberta and Southern Gas Company. It must be noted that even with the reduced pressure, that supplier delivered gas well in excess of the contract pressure of 550 pounds per square inch. The Applicant acknowledged that the same problem will arise in the winter of 1984/85 if similar circumstances prevail, and will become more severe in future years if load growth continues without any action being taken.

With regard to the winter of 1984/85, Cominco Ltd. has offered to assist the Applicant in meeting its obligations and will consider the use of interruptible gas even though its contract stipulates firm gas. Crestbrook is also prepared to assist the Applicant. If a revenue deficiency results from the purchase of peak shaving or interruptible gas the Commission will consider the establishment of a deferral account.

On the basis of Crestbrook's evidence with regard to its load in the Applicant's fiscal year commencing July 1, 1985, Columbia concludes that further discussion with Crestbrook is required before definitive plans can be made for providing service in future years. The circumstances involved are complicated because, due to the high price of natural gas, Crestbrook is proposing to convert a substantial portion of its annual load to an alternate fuel. Accordingly, the Commission concurs with Columbia that any decision with respect to the expenditure of \$1.5 million on the Cranbrook lateral be deferred at this time. Columbia is directed to advise the Commission by March 31, 1985 how it proposes to provide service for the 1985/86 winter and future years. Columbia is also directed to undertake the appropriate engineering studies to ensure a similar problem is not imminent on the other laterals, and to advise the Commission of the results as soon as possible.

III. ISSUES

1. RATE BASE

On the evidence the Applicant's Gas Plant in Service will increase by approximately \$1.3 million over 1984. A significant portion of this increase (\$514,000) is related to expansion of mains and services under the Distribution System Expansion Program ("DSEP") programs of the Federal Government. In addition, the working capital component of the rate base has increased as a result of a new lead/lag study ordered by the Commission in 1983. Additions to the Fording and Westar Elkview meter stations required to improve measurement accuracy and maintain industrial standards added \$129,000. The foregoing additions appear to the Commission to be reasonable and are accordingly approved.

The lead/lag study, in addition to recognizing the increased lag in payment experience of the Applicant, revealed some inefficiencies in the current billing system. The present system of Columbia, based on that which existed prior to the acquisition of Columbia by Inland, involves a certain amount of hand sorting of bills prior to mailing. Columbia expects to significantly improve the system in 1986 by adopting one similar to that of Inland, utilizing a computer billing system.

2. REVENUE AND SALES VOLUMES

The use per customer in Schedules 1 and 2 has generally been declining since 1981 due to conservation effects and conversion or supplementation of the primary heating source by wood and coal. With respect to the industrial customers, Columbia adjusted the projected consumption of Crestbrook, Fording and Westar-Sparwood downward. In the case of Crestbrook, Columbia reduced Crestbrook as forecast by 3% claiming that the customer did not allow for shutdowns due to maintenance problems, etc.

Columbia also reduced Fording's forecast consumption by 5% due to uncertainty in Fording's negotiations with its Japanese customers. Likewise, the Applicant reduced Westar-Sparwood's forecast consumption by 5%. The evidence at the hearing supported the Applicant's estimates, with the exception of the monthly volumes for Fording and the annual requirements of Westar. The Westar volumes were adjusted upward by the Applicant with a resulting reduction in the existing revenue requirements, net of the cost of gas, of \$97,000.

The foregoing illustrates the critical importance of accurate sales forecasting of large industrial loads, as the impact is significant on both the customers and the shareholders. The onus rests with both parties to produce realistic and attainable forecasts. As modified by the Applicant, the sales forecast is accepted by the Commission as reasonable.

With respect to the effectiveness of the Applicant's marketing program, it is apparent from the evidence that a significantly increased penetration of the residential and commercial market has been achieved since 1981. It would appear, however, that this may have occurred at the expense of the large industrial customers. This was acknowledged by the Applicant at page 180 of the transcript where it was stated,

" Mr. Chairman, the level of service, I won't say really the level of service, I'd say the level of marketing that we provide our industrial customers right now is inadequate."

The Applicant acknowledged that the level of "marketing" directed at the industrial sector was inadequate. It was readily apparent from the evidence of Mr. Randall for the Applicant and that of witnesses for both Fording and Crestbrook* that relations between the Company and these industrial customers were not satisfactory. The industrial customers are a vital part of the Columbia system and must be treated as such.

* Claude Bleaney and James Gardiner appeared for Fording and G.E. Fenner, J.P. Gormley and G.R.G. Kennard for Crestbrook

The Commission concludes that an opportunity exists for a greater marketing effort with respect to these customers. Both Crestbrook and Fording are proposing to make significantly greater use of their respective resources, namely, wood and coal, due to the current and anticipated price of natural gas. Fording indicated that in conjunction with the anticipated conversion to a "dual fuel" drying system they are also seeking a reduced natural gas cost through direct purchase from a producer. This latter initiative would be unlikely to affect the earnings of Columbia but could result in substantial savings to the customer through reduced gas costs. These matters will be reviewed again in the next rate hearing.

3. COST OF SERVICE EXCLUDING RETURN

The Commission has considered the estimated cost of service excluding return and concludes that comments are required with regard to Operating and Maintenance Expense, as well as Intercompany charges.

(a) Operating and Maintenance Expenses

Columbia's 1985 operating and maintenance expenses are forecast to increase 4.6% over 1984 normalized costs. The Company has forecast no employee additions and almost identical wage costs as 1984; however, the Company's other operating and maintenance costs are forecast to increase 8.4%, largely due to a 14.3% increase in intercompany charges by Inland.

With regard to the 4.6% increase in costs and to the question of efficiency, the Commission has considered the average number of customers per employee, the average operating and maintenance cost per employee, the average wage cost per employee, the operating and maintenance cost per customer and the cost per gigajoule sold. Although these are crude measures, after adjustment for inflation they do provide an indication of the general level of efficiency and cost control.

The Commission concludes that an increase in costs less than the increase in the rate of inflation is not necessarily an indication of efficiency, and that the Applicant must continue its efforts to control costs. This should include seeking concessions from its suppliers and unions, reflecting the continuing depressed economic conditions. In that regard, Fording's experience in achieving a 25% reduction in unit cost over 3 years (transcript, page 681) is a good example of what can be achieved in difficult circumstances.

(b) Intercompany Charges

Charges are made by Inland Natural Gas Co. Ltd., Columbia's parent, for services rendered by it to Columbia. These charges have increased from \$124,000 per year in 1981 to a forecast of \$279,000 in 1985. The increases were: 32% in 1982, 32% in 1983, 12% in 1984 and are forecast 14% in 1985. These are substantial increases and may be approaching the upper limits of reasonableness subject to significantly improved justification. Prior to the acquisition of Columbia by Inland in 1979, the Applicant was the beneficiary of services from its then parent company for an annual charge of \$42,000.

The evidence indicated that a large portion of the time charges are not based on factual material, but rather on estimates by each individual of the amount of time spent, long before or after the event. The Commission does not suggest that an expensive study should be undertaken or that a costly system should be put in place. Consideration should be given to a factual basis of support, developed at minimum cost.

The Commission recognizes that benefits are realized by the customers of Columbia through its association with Inland, to the extent that services are available which otherwise would not be provided, or only at substantially higher cost. The Commission further recognizes that the costs of these benefits are not easy to quantify. However, the Commission must ensure that the additional services are required by Columbia, and that Columbia in fact

could not itself provide the essential services at a comparable or lower cost. The Commission directs that periodic checks should be made to ensure that the services provided by the parent are competitive with those that could be provided by Columbia itself or by outside suppliers.

The Commission approves the estimates provided by the Applicant but will review this matter in the next rate proceeding to ensure that economies are being achieved.

4. RATE OF RETURN

The Applicant's witness, Dr. Evans, reviewed general economic conditions, evaluated the business and financial risks relating to Columbia, and gave evidence with regard to his comparable earnings, discounted cash flow, and equity risk premium tests, concluding as follows:

"After an evaluation of comparable earnings, discounted cash flow and equity risk premium studies, I conclude that the fair rate of return on common equity for Columbia is in the range of 16.5 - 17.0% at this time. This conclusion places principal reliance on the comparable earnings and risk premium studies. It should be emphasized that this conclusion rests on reasonably conservative assumptions with respect to prospective earnings on book value and an assumed decline of interest rates from current levels. Emphasis on the upper half of the 16.5 - 17.0% range is recommended in light of Columbia's lack of capital market standing."

(a) Interest Rates

With regard to interest rates, Dr. Evans acknowledged that the real rates of return are high by historic standards, with current long-term rates reflecting investor expectation of inflation in the 6 to 7% range, as opposed to the actual spot rate of inflation of 3.7%. This represents a decline of 0.5% in the spot rate since July, when the evidence was prepared.

Similarly, long-term Canadian bonds have declined from 13.8% in July to 12.8% in September 1984 which is above the range of 12.0 to 12.5% estimated by Dr. Evans, but directionally supports the existing estimate assuming no further significant adjustments take place. However, if investors become convinced that the long-term rate of inflation will be in the order of 4.0% or less and undue pressures are not exerted by Government deficits or artificially induced by a reduction of the money supply, a significant decline in the order of 200 to 300 basis points should occur in long-term Government of Canada bonds. The resulting yields would be in the range of 9.25% to 10.25%.

With respect to interest rates the Commission concludes that investors' expectations as to the future rate of inflation are decreasing and that this will be reflected in declining yields. Accordingly, the Commission has not accepted Dr. Evans' estimate of 12.0% to 12.5% but rather has selected a range of 11.0% to 11.5% as a more appropriate estimate of the prospective yield from long-term Government of Canada bonds. The Commission further concludes that to assume a lower yield at this time would create an undue risk to the Applicant's shareholders. If the yields fall substantially below 11.0% this can be reflected in the next rate decision with any current difference accruing to the benefit of shareholders, who in the past may have suffered as a result of rising rates.

(b) Risk Factors

The Commission has given particular consideration to the financial and business risks of the Applicant.

Financial risk as defined by Dr. Evans "is imposed on the common equity owners as a result of management's decision to issue different types of securities to appeal to different investor risk preferences".

In 1979, Columbia sought a return on equity of 15.25% with a 48% equity component and in 1982 a return on equity of 18% with a 37% equity component. In those proceedings the Commission approved returns on equity of 13.75% and 15.75% with common equity components of 48% and 33%.

In this proceeding the Applicant is seeking to increase its common equity component from approximately 33% to 40% and its return on common equity from 15.75% to 16.75%. It is commonly held that as the equity component increases the financial risk decreases and accordingly, in the absence of significant changes in other factors, the return on common equity should decline. The Commission has reflected this factor in its decision.

With regard to business risk, two unique aspects of Columbia must be considered; namely, the lack of transmission facilities and the impact of the potential loss of a significant portion of its industrial load on the remaining customers and the shareholders.

These aspects of risk were summarized in the 1979 Decision wherein the Commission stated at page 13:

"In the matter of risk, the comparisons are somewhat more difficult. The major area of risk is in industrial sales. While Columbia relies heavily on industrial customers for its volume of throughput, the nature of the system is such that its vulnerability to reduction in industrial load is not as serious as in other utilities. This is so because main transmission facilities are not required, these being supplied by the Alberta Natural Gas Co. Ltd.

A comparison with the Inland Natural Gas system emphasizes the point. Inland's rate base is approximately 12 times that of Columbia, but its annual sales volume is only 5 times Columbia's. While a significant reduction in industrial volumes would be important to Columbia, the effect on its overall income would be much less severe."

As noted heretofore on page 9, both Crestbrook and Fording Coal are planning reductions in their consumption of gas, which in total has the potential to reduce Columbia's load by 40%. The evidence indicated that a loss of approximately 40% of the Applicant's industrial load would result in an approximately 5% average increase in rates to the remaining customers. The Commission recognizes that, from the remaining customers' perspective, this would impose an additional financial burden. The Commission concludes that the ability of those remaining customers to absorb that additional burden would reduce the business risk perceived by Dr. Evans associated with loss of load.

Counsel for Intervenors emphasized the difficult economic circumstances of their clients and the steps taken by them to reduce costs and improve profitability. Both Crestbrook and Fording gave evidence in this regard and these concerns were reiterated in their respective arguments. Counsel for Crestbrook stated on transcript page 876, "There is no similar evidence adduced on behalf of Columbia, and indeed, in our submission, the nature and magnitude of increased expenditures forecast by Columbia in this Application, evidences the complete opposite approach, as if the key to profitability was to increase the costs of carrying on business."

Both Crestbrook and Fording also expressed their dismay with the lack of marketing efforts put forward by Columbia with respect to its major industrial customers. The Commission concludes that this failure, acknowledged on the record by the Applicant, has increased its business risk, and is an element of risk for which management must accept responsibility.

(c) Stand-Alone Status of Columbia

An issue which arose during the course of the hearing was whether or not the Applicant should be considered on a basis totally independent from that of its parent, Inland. Dr. Evans, in his evidence with regard to fair rate of return, stated "This approach assumes that Columbia undertakes its own financing and that it should neither give nor receive economic subsidies from its parent".

The Commission believes that if this stand-alone principle was adopted without qualification, it would mean that no benefits would accrue to either the parent or the subsidiary regardless of economic efficiency, with the result that the customers of both would pay a higher price. This would be unfair to both the customers and shareholders of the respective utilities. The Commission further believes that in reality a sharing must inevitably occur if maximum economic benefits are to accrue to both parties. That is, to ensure that economies of scale accrue both to the parent and to the subsidiary and that the cost does not exceed that which would be incurred if the companies were unrelated and independent.

From the evidence with regard to the intercompany services rendered in this instance, arguments could be endless as to what the charges might have been, had one company not been a subsidiary of the other. While reiterating its concerns with regard to the magnitude and nature of the intercompany charges, the Commission therefore accepts the stand-alone concept put forward by the Applicant, and concludes at this time, that each company should be entitled to earn a return on equity reflecting its own capital structure and level of risk.

(d) Conclusion

For all of the foregoing reasons, the Commission concludes that the opportunity to earn a return on common equity within the range of 15.50 - 16.0% is just and reasonable at this time. That range does not reflect the emphasis given by Dr. Evans to setting a range of return on common equity which will create a capital market standing for Columbia's shares. The Commission has concluded that, even on a "stand-alone" basis, Columbia's capital market standing is largely determined by its association with Inland and that, accordingly, a higher rate of return for that purpose cannot be justified. The Commission therefore does not accept the views of Dr. Evans with respect to capital market standing.

Finally, the Commission concludes that the Applicant's increased equity component must be recognized as reflecting a reduction in risk. Accordingly, the Commission concludes that the appropriate rate of return lies at the lower end of the range and that the opportunity to earn a return of 15.50% on equity is fair and reasonable in the circumstances.

IV. OTHER MATTERS

1. INTEREST DEFERRAL ACCOUNT

The Applicant has requested the Commission to approve continuation of an interest deferral account at a rate of 12% and amortization of the credit balance of \$136,000 as at June 30, 1984 over 5 years at \$27,000 per year. The Commission approves continuation of the interest deferral account at this time.

However, with regard to the calculation of the deferred interest expenses, the Commission directs the Applicant to calculate the deferred interest each month by multiplying the actual difference between the deemed rate of 12% and the actual average interest rate for the month, by the actual average short-term debt for the month. The calculations with supporting documents should be forwarded to the Commission for review at the completion of each fiscal year.

2. MOTION BY CRESTBROOK

By Notice dated October 1, 1984, a motion was made on behalf of Crestbrook that the Commission's Order No. G-33-84 dated June 26, 1984, granting an interim rate increase to Columbia, be set aside or modified. Order No. G-33-84 had been the subject of a previous application to the Commission that the Order be set aside and of an application for leave to appeal the Order to the Court of Appeal, both of which applications were made by Crestbrook and subsequently denied.

Pursuant to the scheme of the Act and particularly subsection 67(4) and subsection 106(1) it is clear that the Commission has a discretion to grant relief on an interim basis in at least the following two circumstances:

1. where " the utility considers (it) to be made necessary by a rise in the price, over which the utility has no effective control, required to be paid by the public utility for its gas supplies, other energy supplied to it, or expenses and taxes," [subsection 67(4)] and
2. "where the special circumstances of a case so requires," [subsection 106(1)]

Applying the foregoing standards and on the basis of the substance and timing of Columbia's application for an interim rate increase, the Commission considered that it should exercise its discretion in favour of granting part of the interim increase requested.

An interim rate increase is by its nature subject to review on the hearing for a permanent rate increase. That appears to be the significance of the comments of The Honourable Mr. Justice MacFarlane at page 5 of his decision denying Leave to Appeal to the Court of Appeal. Those comments are not in themselves an invitation to Crestbrook to reapply to the Commission to set aside the Order. However, the Commission was advised by counsel and accepts, that a reapplication to set aside the interim rate increase was contemplated by the parties at the hearing in Court of Appeal Chambers. In any event, the Commission heard full argument and considered the issue again.

The Commission does not understand The Honourable Mr. Justice MacFarlane to have condoned a general practice of making repeated applications to have the Commission reconsider its decisions. Such repeated applications are time-consuming and expensive for all parties. In the Commission's view they ought to be discouraged, particularly where they relate to matters of an interim nature.

Finally, it was argued on behalf of Crestbrook that for the Commission to make Order No. G - 33 - 84 without interested parties having an opportunity to respond, was a denial of natural justice. The Commission notes that the Act

specifically contemplates that such orders will be made without notice. Natural justice and procedural fairness are adequately provided for in the Act, by providing for a hearing with respect to the application for a permanent increase.

The Commission therefore concludes that it properly exercised its discretion in making Order No. G - 33 - 84 and hereby dismisses the Motion.

3. PARTICIPATION BY RESIDENTIAL AND COMMERCIAL CUSTOMERS

Counsel for the Applicant in argument stated that the lack of residential intervention had demonstrated that the increase sought by the Applicant was reasonable. Counsel for Crestbrook argued that it was due to inadequate publication and notice. The Commission has always been concerned about local residential and general customer participation and steps have been taken to encourage wide representation. These have included holding the hearing in a service area, local newspaper advertising, and the recent requirement that copies of Applications must be filed with each municipal office and large industrial customer in the service area. The Commission concludes that lack of participation by the public at large cannot be accepted as evidence of public approval of the rate application.

4. PUBLIC UTILITIES INCOME TAX TRANSFER ACT, 1966/67

The purpose of the above Act was to transfer 95% of the federal income taxes paid by privately-owned public utilities from the Federal Government back to the provinces such that these utilities could be put on the same basis as the Crown-owned utilities which do not pay Federal income taxes. Currently, Alberta is the only province which refunds such transfer back to the utilities.

Counsel for Cominco questioned the Applicant's effort to solicit the provincial government to refund the above-mentioned transfer back to the utility customers.

The Commission concludes that this is a matter beyond its jurisdiction, and should best be dealt with by the customers and the utilities.

5. HEARING COSTS

The costs of this proceeding substantially exceeded those of the previous rate hearing because this hearing considered not only the revenue requirements but also the complaint by Fording, the Motion by Crestbrook and questions of the appropriate form of industrial contracts (Rate 5). If costs associated with these matters are excluded, the costs for the revenue requirements hearing were approximately \$108,000. The Commission directs that these costs be amortized over two years commencing July 1, 1984 with the unamortized portion included in the rate base.

The balance of the hearing costs should be amortized over 5 years on the same basis.

V. DECISION

Analysis of filed material shows a significant differential between costs of service and revenue in the Schedule I class and that a refund would simply increase the shortfall. The Commission therefore confirms the Schedule I interim rates as permanent.

The interim rates for Schedules II, III, IV and the cost of service component of the Special Contracts, are to be adjusted downward by 0.237¢ per billing unit, effective with consumption on and after December 1, 1984.

The Commission further Orders a refund of 0.237¢ per billing unit plus interest be made to Schedules II, III, IV and the Special Contract customers, for consumption in the period July 1, 1984 to November 30, 1984. This refund, exclusive of interest, amounts to approximately \$200,000 on an annualized basis.

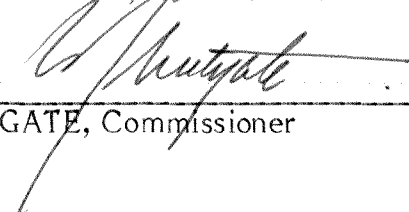
DATED at the City of Vancouver, in the Province of British Columbia this 21st day of November, 1984.



J.D.V. NEWLANDS, Deputy Chairman



D.B. KILPATRICK, Commissioner



R.J. LUDGATE, Commissioner



BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-72-84

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 an Application by
Columbia Natural Gas Limited

and

IN THE MATTER OF a Motion by
Crestbrook Forest Industries Ltd.

BEFORE: J.D.V. Newlands,)
Deputy Chairman,)
Chairman;)
D.B. Kilpatrick,) November 21, 1984
Commissioner;)
R.J. Ludgate,)
Commissioner)

O R D E R

WHEREAS Columbia Natural Gas Limited ("Columbia")
filed an application for interim and permanent rate relief on
June 14, 1984, as amended August 3, 1984; and for corresponding
amendments to its filed Schedule of Rates; and

WHEREAS pursuant to Order No. G-33-84, Columbia was
granted an interim refundable increase of 2.19% effective
July 1, 1984; and

WHEREAS pursuant to Order No. G-33-84, the
Application was heard in a public hearing in Cranbrook and
Vancouver on September 25 through 28 and October 2 through 4,
respectively; and

WHEREAS during the course of the said hearing, the
Commission heard a motion by Crestbrook Forest Industries Ltd.
("Crestbrook") that the interim rate increase be set aside or
modified; and

.../2

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-72-84

2

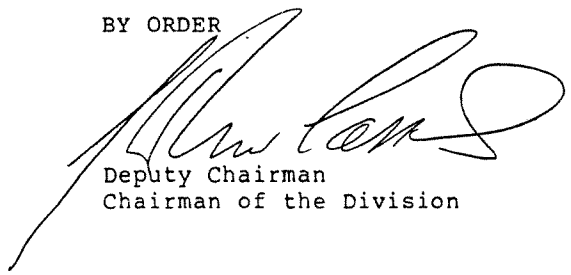
WHEREAS the Commission issued a Decision on the
Application dated November 21, 1984.

NOW THEREFORE the Commission hereby orders as
follows:

1. The motion of Crestbrook herein is denied.

DATED at the City of Vancouver, in the Province
of British Columbia, this 21st day of November, 1984.

BY ORDER



Deputy Chairman
Chairman of the Division



BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-73-84

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 an Application by
Columbia Natural Gas Limited

BEFORE:	J.D.V. Newlands,)	
	Deputy Chairman,)	
	Chairman;)	
	D.B. Kilpatrick,)	November 21, 1984
	Commissioner;)	
	R.J. Ludgate,)	
	Commissioner)	

O R D E R

WHEREAS Columbia Natural Gas Limited ("Columbia")
filed an application for interim and permanent rate relief on
June 14, 1984, as amended August 3, 1984; and for corresponding
amendments to its filed Schedule of Rates; and

WHEREAS pursuant to Order No. G-33-84, Columbia was
granted an interim refundable increase of 2.19% effective
July 1, 1984; and

WHEREAS pursuant to Order No. G-33-84, the
Application was heard in a public hearing in Cranbrook and
Vancouver on September 25 through 28 and October 2 through 4,
respectively; and

WHEREAS the Commission issued a Decision in this
matter dated November 21, 1984.

.../2

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER

NUMBER G-73-84

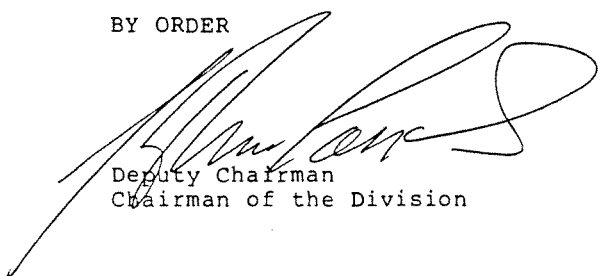
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NOW THEREFORE the Commission hereby orders as follows:

1. The Rate Base and Revenue Requirement of Columbia for the Test Year ending June 30, 1985 are as set out in Schedules contained in the Decision.
2. Columbia is to proceed with refunds to its customers of record in the period July 1, 1984 through November 30, 1984, as specified in the Decision of the Commission. Such refunds are to include interest calculated as specified in Order No. G-33-84.
3. The Commission will accept, subject to timely filing, amended Tariff Rate Schedules effective December 1, 1984, to reflect a reduction of 0.237¢ per billing unit from those customer rates (excluding Schedule 1 Rates) in effect on an interim basis from July 1, 1984 in accordance with the Decision. A reconciliation schedule is required to be filed concurrently.
4. Columbia will comply with the directions incorporated in the Commission Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 21st day of November, 1984.

BY ORDER



Deputy Chairman
Chairman of the Division

Schedule I

COLUMBIA NATURAL GAS LIMITED
Utility Rate Base for the Year Ending June 30, 1985

(\$000)

	Per Application (Exh. 1, p. 1-2-2)	Applicant's Adjustments	Amended (Exh. 2)	Commission Adjustment	Adjusted Balances
Gas plant in service	\$16,352		\$16,352		\$16,352
Additions to gas plant - in service	653		653		653
Less- customer advances on construction	(102)		(102)		(102)
Gross plant	16,903		16,903		16,903
Less- C I A C	(668)		(668)		(668)
	16,235		16,235		16,235
Accumulated depreciation	(3,429)		(3,429)		(3,429)
Adj. to acc. depreciation	(162)		(162)		(162)
Net plant	12,644		12,644		12,644
Deferred income tax	(1,592)		(1,592)		(1,592)
Deferred charges	(102)	\$14	(88)	\$45 [1]	(43)
Working capital allowance	439	(8)	431		431
Utility Rate Base	\$11,389	\$6	\$11,395		\$11,440

[1] Hearing costs

	Revenue requirement	Other matters	Total
Beginning	\$ -	\$ -	\$ -
Additions	108,000	45,000	153,000
Amortization	(54,000)	(9,000)	(63,000)
Ending	54,000	36,000	90,000
Mid-year	27,000	18,000	45,000

COLUMBIA NATURAL GAS LIMITED

Schedule II
=====UTILITY INCOME AND EARNED RETURN
for the year ending June 30, 1985
=====

(\$000)	Per Application (Exh.1,p.1-2-3)	Applicant's Adjustments	Amended (Exh.2 p.2-2-3)	Commission Adjustments	Adjusted Balances
SALES VOLUME (TJ)	9,925		9,925	390 [1]	10,315
UTILITY REVENUE					
Gas sales -present rates	\$34,128	\$303	\$34,431	\$1,276 [1]	\$35,707
-interim rates	747	(1)	746	28 [1]	774
-cost of gas		50	50	[3]	50
-additional rates		64	64	[3]	64
-deficiency				(318)[3]	(318)
Total	34,875	416	35,291		36,277
EXPENSES					
Purchase of gas	29,518	350	29,868	1,179 [1]	31,047
Operation & maintenance	2,068		2,068	63 [2]	2,131
Property,franchise taxes	1,004	(39)	965	(3)[4]	962
Depreciation & amortization	358	(27)	331		331
Other operating revenue	(93)		(93)		(93)
	32,855	284	33,139		34,378
Utility income before taxes	2,020	132	2,152		1,899
Income taxes-current	478	24	502		310
-deferred	0		0		0
Total	478	24	502		310
EARNED RETURN	\$1,542	\$108	\$1,650		\$1,589
UTILITY RATE BASE	\$11,389	\$6	\$11,395		\$11,440
RETURN ON RATE BASE %	13.54		14.48		13.89

[1] Exhibit 27, revision to Westar - Sparwood sales.

[2] Amortization of hearing costs (Schedule I [1])

[3] Refundable rates: \$(318,000 - 64,000 - 50,000) = \$204,000
or approximately \$200,000.

[4] Franchise fees adjustment: \$318,000 x 0.877% (Exh.2, p. 2-10-01)

COLUMBIA NATURAL GAS LIMITED

Schedule III
=====CALCULATION OF INCOME TAXES ON UTILITY INCOME
FOR THE YEAR ENDING JUNE 30, 1985

=====

(\$000)

Earned return	\$	1,589	
Deduct: interest on debt		(877)	[1]
Add: non-tax deductible expenses (net)		(14)	

Accounting income after tax		698	
Deduct: timing differences		(322)	
adj. hearing cost		(90)	[2]

Taxable income after tax	\$	286	
		=====	
Income tax rate % (current)		52.000	
1- current income tax rate		48.000	
Deferred income tax rate %		0.000	
Taxable income before income tax	\$	596	
Add: amount required to provide for deferred tax		0	

TAXABLE INCOME	\$	596	
		=====	
Income tax - current	\$	310	
- deferred		0	

TOTAL	\$	310	
		=====	

[1] Utility debt interest = rate base x cost component % of debt:

\$	11,440	x	7.670%
----	--------	---	--------

[2] Timing difference adjustment for hearing cost:

Expense for tax purposes	\$153,000
Amortization per Sch. II	(\$63,000)

Timing difference	\$90,000
	=====

COLUMBIA NATURAL GAS LIMITED

Schedule IV
=====

COMMON EQUITY AS AT JUNE 30, 1985

=====

(\$000)

Common share capital		
June 30, 1984	\$1,045	
(Exh.2, p.2-14-03)		
Retained Earnings		

Balance beginning of year	3,157	[1]
Forecast net income	-----	
for the year	706	[2]
DEDUCT:		
Dividends	0	

TOTAL June 30, 1985	\$4,908	
	=====	
Common equity as at		
June 30, 1984	\$4,202	[1]
	=====	
MID-YEAR COMMON EQUITY	\$4,555	
	=====	

[1] Exhibit 11 - actual June 30, 1984 balances.

[2] Mid-year Common Equity times % return on common equity.

COLUMBIA NATURAL GAS LIMITED

Schedule V

=====

RETURN ON CAPITAL FOR THE YEAR ENDING JUNE 30, 1985

=====

(\$000)	Capitalization per Application (Exh. 2, p. 2-2-5)	Commission Adjustments	Capitalization Amount	Percentage %	% Average Embedded Cost	Cost Component %
Long Term Debt	\$5,493		\$5,493	48.38	13.000	6.29
Unfunded Short-term Debt	997	[1] \$310	1,307	11.51	12.000	1.38
Preference Shares	0		0	0.00	0.000	0.00
Common Equity	4,675	[1] (120)	4,555	40.11	[2] 15.500	6.22
	\$11,165		\$11,355	100.00		13.89
	=====		=====	=====		=====

[1] Increased short term debt:

- due to lower return on equity

\$120

- S.S. tax (Exh. 2 tab 5 page 5)

\$1,995

(Exh. 5 tab 2 Cash 2)

1,705

mid-year

145

- rate base addition

45

\$310

=====

[2] Approved return on common equity at 15.50%