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

and

IN THE MATTER OF
an Application by
Princeton Light and Power Company, Limited

DECISION

March 27, 1986

Before:

J.D.V. Newlands, Deputy Chairman, and Chairman of the Division N. Martin, Commissioner

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APPEARANCES

D.H. BELL-IRVING, Q.C.

For Princeton Light and Power Company, Limited

K.C. MACKENZIE

Commission Counsel

Hearing Officer

W.R. HARPER

Commission Staff

B. MCKINLAY

Court Reporter

ALLWEST REPORTING LTD.

LIST OF EXHIBITS

Exhibit No.

Response to Deficiency Letter from Dunwoody and Company to the Commission	Deficiency Letter to D.R. Bonner from B.C. Utilities Commission	Commission Order No. G-10-86 dated February 13, 1986	Letter from D.R. Bonner to Commission Re: Tentative Financing Arrangements	Commission Order No. G-98-85 dated December 20, 1985	Affidavit of Duncan Harry Bell-Irving Re: Hearing Notice to Customers	Commission Order No. G-83-85 dated October 10, 1985	Supplementary Appendices to Application	Princeton Light and Power Company, Limited Application	Affidavit of Graham Gould Re: Publication of Notice of Hearing
9	∞	7	6	5	4	w	2A	2	Process

charged for electric service, Limited for authorization to amend its filed tariffs concerning the rates to be Columbia on Wednesday, March 19, 1986. The September 9, 1985 Application of Princeton Light and Power Company, was heard in public in Princeton, British

J.D.V. Newlands, Deputy N. Martin, Commissioner. The Division of the Commission which heard the Application was comprised of Chairman and Chairman of the Division and

I INTRODUCTION

This Decision results from a September 9, 1985 Application by Princeton Light and Power Company, Limited ("Princeton", "the Applicant"). The Applicant requested permanent rate relief effective October 1, 1985 or, in the alternative, interim relief in the full amount subject to confirmation at a subsequent public hearing. The proposed increase of 3.198% would provide the Company the opportunity to earn a return of 15.842% on common equity for the fiscal year ending March 31, 1987.

By Commission Order No. G-83-85 dated October 10, 1985 the Commission approved an interim refundable rate increase of 3.198% applicable to consumption of electricity on and after October 10, 1985. This interim increase was subject to refund with interest at the average prime rate of the bank with which Princeton conducts its business.

Pursuant to Commission Order No. G-10-86 the Application was set for public hearing commencing at 10:00 a.m., March 19, 1986 at the Royal Canadian Legion Hall located in Princeton, British Columbia.

Princeton is an investor-owned electric distribution utility which has provided service to the Village of Princeton and environs for approximately 65 years. Princeton, situated at the junction of the Tulameen and Similkameen Rivers, is approximately 300 kilometres east of Vancouver and has a population of about 5,500.

The industrial support for the community is principally derived from the Weyerhaeuser lumber mill, although additional support is gained from the Similkameen copper mine adjacent to the community, as well as a locally active agriculture industry.

consumption occurring in fiscal 1983. The approximately lumber facility's consumption has grown from 14.5 Columbia Hydro and Power Authority ("B.C. Hydro"). 19.6 Gwh in 1985 with the most significant increase The adjacent mine Gwh is served by the Ð. 1979 Ö

interconnection with B.C. Hydro at Princeton. This interconnection provides a that which existed a few years ago when service was solely dependent on the much higher degree of security of service for the Village of Princeton than Columbia as well as the Kootenay region of the Province. Cominco Ltd., which Power and Light Company, Limited ("WKPL"), a kV line from Penticton. Applicant purchases its electric power requirements from West Kootenay WKPL 69 KV provides service transmission line in the from southern interior Penticton wholly-owned subsidiary Service is provided as well of British as

its accounting and financial witness. Manager; and Mr. David Bonner, C.A., a partner of Dunwoody and Company, as Vice-President, as its policy witness; supported by Mr. Applicant was represented at the hearing by Mr. Graham Gould, General John Barr Hall, Senior

II TEST PERIOD

opportunity to earn an average of 15.5%. ending opportunity indicated forecast Applicant Applicant, March 31, test that argued to earn a return on equity of approximately 15.159% in the year period if the in support of its rate Application put forward 1986 that relief sought was granted, Princeton would have ending March 31, 1987. and 15.842% in the year ending March 31, over the two-year period they should have The Applicant's ρυ 1987. material the

approximately 17.7%. been the Commission's historic procedure, the return on equity requested is If the return sought in the year ending March 31, 1986 is annualized, which has

III RATE BASE

the should maintain the quality capital Applicant. proposed acquisition of a new line truck for \$147,000, which in Princeton's Commission has reviewed the proposed capital additions and, in particular, expenditures a major The Commission accepts the accounting treatment proposed by the capital addition. are necessary and the of service and assist in the control of operating The Commission believes that the proposed acquisition of the new line truck

the previous line truck purchased in 1973 and which will be retained. Commission is of the quality of the vehicle to be purchased as well as the historic life of concerned with depreciation rates proposed by Princeton 5

not reasonably reflect the service life of the vehicle. considered the proposed depreciation rate of 15% and believes this rate does quality Commission has also given consideration to the evidence with been incurred of the roads on which the truck is used and the expenditures which to maintain the existing truck. The Commission regard

depreciation should be Accordingly the Commission has concluded 7% and has made the appropriate adjustments in the that the appropriate 0f

IV COST OF SERVICE

comments and adjustments are required. Commission has considered the cost of service and believes that both

particularly, upon the General Manager and operating staff operated and this speaking is reflective the Commission upon not only the officers believes that Princeton and directors Š. efficiently but,

consulting and professional services and the computer costs. relationship Commission, however, is concerned to the size of the utility, the cost with the level of directors' incurred for engineering

time. expense to ensure value is being received, and no adjustment is required at this responsibility. of directors. Regarding directors' fees, these appear to be high in view of the normal duties 7 Bentley are providing services beyond the normal scope of a director's In the alternative, two of the directors, namely; Mr. Ewart and Accordingly the Commission will continue to monitor this

benefitting the ratepayers in future years. than this, will initially accrue to the shareholders with the benefits achieved has reduced these costs by 25% and declares that any savings achieved March 31, 1986 recognizing that these are now largely beyond the control of encourage the Applicant to take appropriate steps to reduce these costs. occasion has disallowed a Commission has expressed Commission has Company. regard to However, in the year ending March 31, 1987 the Commission not made any adjustments to these costs in the year ending consulting concern with these in the past and, in fact, portion of these fees and fees for costs. professional services, The Commission would

Apart from the above items the Commission has also considered the cost incurred with regard to computerization and is extremely concerned that additional expenses are being contemplated with no apparent quantifiable benefits to be achieved. Accordingly, before significant new expenditures are made Commission approval must be obtained. The Applicant has chosen to write-off the considerable costs already incurred over a very short period of time, although the witnesses admitted the useful lives could be longer. Despite the rapid changes in technology cited as a reason, the Commission believes the present equipment and software can continue to provide benefits specifically to the Company and an adjustment has been accordingly made. The Commission has adopted an amortization rate of 10% on software costs. For the computer equipment, the net book value at March 31, 1985 is to be depreciated at 20% per annum.

Due to the difficulty in obtaining information from Weyerhaeuser as to its projected operations, Princeton simply used the fiscal 1985 consumption to estimate Industrial-Primary revenues for 1986 and 1987. Evidence provided by the Applicant shows, however, that year-to-date consumption is running about 7% higher than 1985. Given this, and the trend to higher consumption apparent over the last few years, the Commission, believing that up-to-date information ought to be utilized, has employed the 1986 sales figures for both test years after normalizing for the effect of a wildcat strike in June 1985. Forecast energy sales have therefore been increased by approximately 1.4 million kWh for fiscal 1986 and held constant for 1987. The result is that forecast sales for fiscal 1987 are therefore increased by 1.6% over forecast.

V COST OF CAPITAL

The Commission has considered the capital structure proposed by the Applicant as well as the proposed return on equity of 15.5% over two years.

In considering the appropriate rate of return on equity the Commission has considered the evidence given, the likely level of interest rates and inflation in the test year ending March 31, 1987 and the level of business risk incurred.

With regard to interest rates and inflation it is likely over the next 12 months, that interest rates will decline. If a significant upward adjustment takes place in the financial markets, which cannot accurately be foreseen at this time, a modified Application can be considered.

With regard to business risk, Princeton has a higher level of business risk than most other electrical utilities since it is dependent on one large industrial customer. This risk can operate to both increase or decrease profits and hence is either a positive or negative influence on earnings.

In addition to electrical utilities the Commission has also considered Princeton's proposed rate of return on equity in relationship to that recently allowed gas utilities in British Columbia. The Commission recognizes that the argument is often made that gas utilities have a higher level of risk than the electrics due to the nature of their market.

After consideration of the evidence the Commission concludes that the opportunity to earn a rate of return on common equity within the range of 14% to 15% is just and reasonable in these circumstances and for the purpose of determining the revenue requirements has adopted 14.5%.

VI OTHER MATTERS

Apart from the matters heretofore discussed, comments are required regarding the proposed financing, appropriate treatment of Contributions in Aid of Construction for rate-making purposes, and the "catch-up" concept advanced by the Applicant.

The Commission has considered the proposed financing and hereby gives approval in principle contingent upon the rate being equal to, or less than, 11.25% and subject to the removal of the restriction on capital expenditures. Needless to say, if the Applicant can achieve a rate less than that contemplated this will accrue initially to the benefit of the shareholders.

In addition to the above the Commission has also considered the appropriate treatment to be accorded to Contributions in Aid of Construction, that is, whether it should be deducted from rate base or included in the capital structure for rate-making purposes. Historically Princeton has included this as a component of the capital structure whereas in the circumstances of other utilities it has been deducted from rate base. The Commission believes that Princeton's historic treatment should prevail.

Concerning the concept of "catch-up" earnings as put forward by Princeton, it argued that the opportunity to earn the approved return should be viewed over two years. The Commission believes there is merit in considering a two-year test period inasmuch as this provides rate stability as well as reduces the cost of the proceedings on an annual basis.

In the alternative, the Commission believes the rates in an individual test year must be just and reasonable in themselves and that the Princeton proposal does not achieve this criteria, especially in the year ending March 31, 1986. As an example, if Princeton had applied sooner, the forecast return in 1986 would have been lower and, conversely, if they had applied later, the rate increase required would have been higher with a significantly higher return resulting in 1987. The Commission also believes that an onus exists on senior management to apply for relief in a timely manner and such action, to a large extent, may overcome the Applicant's concern.

In addition to the above theoretical concerns the Commission has also considered the actual results achieved over the last several years to ensure the desired results are being achieved. The unadjusted actual earnings reported by Princeton from 1980 have been as follows:

	Return on Equity (%)
1980	12.43
1981	6.82
1982	13.40
1983	15.94
1984	16.65
1985	16.35
1982 1983 1984	15.94 16.65

After having given consideration to the circumstances of Princeton, not the least of which is size, the Commission believes "catch-up" is inappropriate and the required adjustments have accordingly been made in the Schedules.

VII DECISION

On the basis of the evidence the Commission has determined that no increase is required for the fiscal year ending March 31, 1986 as Princeton will have the opportunity to equal or exceed the approved return. The Commission directs the Applicant to proceed with appropriate refunds including interest, to all customers of record in the period October 10, 1985 through March 31, 1986. Such refunds will apply to actual consumption for the period ending March 31, 1986 or such earlier date as may be appropriate. The refunds may be implemented as a credit on customer billings.

The Commission concludes that an increase of 1.0% over permanent rates is required for the fiscal year ending March 31, 1987. The Commission directs the Applicant to file, in a timely manner, amended Tariff Rate Schedules to reflect this increase effective April 1, 1986.

In circumstances where the Applicant has been unsuccessful in whole or in part an argument can be made for a sharing of the costs between the ratepayers and shareholders. However, the Commission believes that the previous Application costs incurred are appropriate to be recovered from customers over two years due to the extenuating circumstances. A change in the Income Tax Act occurred after the filing of that Application, thus removing the need for a rate change.

The current Application cost should be amortized over two years as provided in the Application.

DATED at the City of Vancouver, in the Province of British Columbia, this 27th day of March, 1986.

J.D.V. MEWLANDS, Deputy Chairman

and Chairman of the Division

N. MARTIN, Commissioner



BRITISH COLUMBIA UTILITIES COMMISSION

ORDER

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 for Rate Relief by Princeton Light and Power Company, Limited

BEFORE:

J.D.V. Newlands,)
Deputy Chairman; and) March 27, 1986
N. Martin,)
Commissioner)

ORDER

WHEREAS a public hearing pertaining to Princeton Light and Power Company, Limited ("Princeton") commenced before this Commission at Princeton, B.C. on Wednesday, March 19, 1986 to hear, inter-alia, the following matter:

(a) An Application dated September 9, 1985 for a 3.198% interim rate increase effective October 1, 1985 to its filed Tariff Rate Schedules.

WHEREAS the Commission has considered the

Application and the evidence adduced thereon, all as set forth in a Decision issued concurrently with this Order.

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

- The interim rates currently in effect since October 10, 1985 as authorized by Commission Order No. G-5-85 are hereby confirmed as being in excess of the 1986 test year Revenue Requirements of Princeton.
- The Revenue Requirements of Princeton for the 1987 Test Year indicate a requirement for a 1.0% general increase effective April 1, 1986 over customer rates which were in effect immediately prior to October 10, 1985.
- 3. The Rate Base for the Test Year ending March 31, 1986 is approximately \$2,045,000.

ORDER

NUMBER

G-18-86

2

- 4. The Rate Base for the Test Year ending March 31, 1987 is approximately \$2,131,000.
- 5. The Commission will accept for filing, subject to timely presentation, revised Tariff Rate Schedules conforming to the Revenue Requirement for the 1987 Test Year, effective with consumption on and after April 1, 1986. The amended Tariff Rate Schedules will allow Princeton an opportunity to earn a rate of return on common share equity of approximately 14.5%, within a range of 14.0% to 15.0%.
- 6. Princeton is to proceed with refunds to its customers of record in the period October 10, 1985 through March 31, 1986 as specified in the Commission Decision issued concurrently with this Order.
- Princeton will comply with the directions incorporated in the Commission's Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this $27^{+/2}$ day of March, 1986.

BY ORDER

 $u_{ t Deputy Chairman}$

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PRINCIPALISHT AND FOWER COMPANY LIMITED

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PRINCETON LIGHT AND POWER COMPANY LIMITED

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PRINCETON LIGHT AND POWER COMPANY LIMITED

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		(C) (C) (C)		60 00 44 44		Contributions in aid
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		% of capital	Adjusted Forecast Pverage 1986	Forecasted 31, 11986	Barra at	

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PRINCETON LIGHT AND POWER COMPANY LIMITED

UTILITY RATE BASE FOR 1987

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PRINCETON LIGHT AND PUMER COMPANY LIXITED

UTILITY INCOME AND EARNED RETURN FOR 1987

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78,448 1,288		(11,552) 39,948 (9,212) (15,015)	11,552 38,500 10,500 15,015		11,552 38,500 10,500 1,437	Interest - debenture - operating - capital - truck - notional
**************************************			\$23,247		\$238, 247	
Pajaste Balaste Ba Balaste Balaste Balaste Ba Balaste Balaste Balaste	or of the second	Commission Adjustments	Amended	Applicant's Adjustments	Application	į

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ASINCEION LIBHI AND DOWN COMPANY LIMITED

UTILIY CAPIAL STAUTURE FOR 1987

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	a sala sano sano sano sano sano sano sano san	Adjusted Forecast at Mar. 31, 1987	Adjusted Forecast Average 1987	Adjusted % of capital		TAI DE LEVE	of capital *
Deferred income taxes			5.2	jo-rai Gazi Gazi go-rai			
Contributions in aid	384, 043	57.89	75. GG	5			
Customer advances	5	0	8	98			
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	70,00	694, 626	69 27 14 14	7	78,446	220	Ç.i On On
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	and the state of t	200 - 200 -	The section was well as the content with the section with the		81,85	S. S	National Conference of the Con
Preferred shares	250,000	250,000	150,00	3			Sand Service Service Service Service
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Total equity			A CONTRACTOR OF THE CONTRACTOR		The same was seen and		AND SECURITION AND ADDRESS OF THE PARTY OF T
TOTAL CAPITALIZATION		\$2,154,578	***************************************	100.000 \$219,981			

- industrial-Primary consumption increased by 7%.
- 2. Line truck depreciated by 7% p.a.
- 3. Software costs amortized over ten years.
- 4. Computer equipment met book value depreciated at 20%
- 5. Engineering consulting expenses reduced by 25%.
- 6. Professional services expense reduced by 25%.
- 7. Return on common equity adjusted to 14.5%
- 8. Proposed financing approved for 1987.
- 9. Commission costs charged (\$10,000), two year amortization.
- 10. Income tax calculation corrected.