DOCUMENT SUMMARY

Document Id:	0213A
Document Name:	DECISION - INLAND
Operator:	C. Smith/S. Werner
Author:	RJL - RJF - JGreiner
Comments:	May 17, 1983

STATISTICS

OPERATION	DATE	TIME	WORKTIME	KEYSTROKES
Created	10/20/82	12:05	3:36	5800
Last Revised	11/05/83	12:04	1:03	1428
Last Printed	05/19/83	09:38		
Last Archived	05/13/83	15:44	onto Diskette	0026A

Total Pages:	45	Total Worktime:	29:47
Total Lines:	960	Total Keystrokes:	152926

Pages to be printed: 1

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

and

IN THE MATTER OF Rate Applications by Inland Natural Gas Co. Ltd.

DECISION

May 25, 1983

Before:

M. Taylor, Chairman; and
R.J. Ludgate, Commissioner

TABLE OF CONTENTS

APPEARANCES

R.J. Gibbs B.J. Wallace	Commission Counsel
C.B. Johnson Patrick Lloyd	Inland Natural Gas Co. Ltd.
T.D. Tutti	Cominco Ltd.
R.B. Wallace	B.C. Forest Products B.C. Timber Caribou Pulp and Paper Co. Prince George Pulp and Paper Weyerhaeuser Canada Council of Forest Industries
K.E. Gustafson	Consumers Glass Company Ltd. Quesnel River Pulp Company
M.F. Shoemaker	B.C. Hydro & Power Authority
C.P. Griffin Roy Dyce	Pacific Northern Gas Ltd.
R.S. Morrice	B.C. Coal Limited
C.A. Jeffery	City of Prince George

R.J. Fletcher J.A. Greiner W.J. Grant	Commission Staff
W.R. Harper	Hearing Officer
Allwest Reporting Ltd.	Court Reporters

A. THE COMPANY

Inland Natural Gas Co. Ltd. ("Inland", the "Applicant" or the "Company") is a regulated utility under the Utilities Commission Act. The Company's primary business is the transmission and distribution of natural gas to 58 communities in British Columbia in a service area stretching from the Peace River area in the north, through the Caribou and Okanagan to the West Kootenays. The Company serves approximately 100,000 accounts in British Columbia in a general area with an estimated population of 600,000.

The Company has some 350 employees and its head office is in Vancouver.

The Company acquired 100% of Columbia Natural Gas Limited ("Columbia"), a gas distribution system in the East Kootenays, on July 9, 1979. Other wholly-owned subsidiaries include Grande Prairie Transmission Co. Ltd., Peace River Transmission Company Limited, St. John Gas and Oil Co. Ltd., Inland Development Co. Ltd., and Inland Transmission Co. Ltd. and Inland Development (1957) Co. Ltd. Subsidiary assets account for less than 10% of consolidated assets.

B. BACKGROUND

This Decision deals with the revenue requirement of Inland covering two test periods, fiscal 1982 and 1983.

The last Rate Decision of the British Columbia Utilities Commission ("the Commission") with respect to Inland was dated March 18, 1981. It dealt primarily with matters affecting the revenue requirement of the test period being the fiscal year ending June 30, 1981.

By Application dated June 25, 1981 Inland requested and was granted interim relief of approximately 2% representing an annual amount of $2.3 million, effective July 1, 1981.

On January 27, 1982 Inland applied to recover (a) an estimated increase in property taxes which was to result from a forecast increase in assessed values and (b) the higher cost of debt due to the issue of $20 million Series B Debentures at a rate of 18.25%. In response thereto, the Commission authorized an interim increase, subject to refund, of approximately $2.1 million which became effective February 1, 1982. The Commission requested that an Application be filed in support of the existing rates by March 15, 1982.

Upon request by Inland, this date was amended and the Application was subsequently filed on March 31, 1982. By letter dated May 5, 1982, subsequent to an Application by TMA Western Resources Ltd. ("TMA") to register the outstanding common shares of Inland, the Commission advised Inland that it was not in the public interest to proceed with the Rate Application until the matter of ownership of Inland had been determined. On February 26, 1982, TMA, a B.C. company jointly owned by Trans Mountain Pipe Line Company Ltd. and two Vancouver businessmen, F.J. Anderson and C.B. Macdonald, had made an offer which resulted in the acquisition of 93.5% of the outstanding common shares of Inland. An application by TMA to register the transfer of the majority of shares on the books of Inland was denied by the Commission, after a public hearing, primarily because the Commission concluded that it was "... in the public interest that the shares of a public utility be widely held ...".[1]

(1) In the Matter of an Application by TMA Western Resources Ltd. -- Decision June 30, 1982.

On June 21, 1982 Inland filed updated material seeking further interim relief of 3.2% amounting to approximately $5.3 million on an annual basis, to be effective July 1, 1982. Furthermore, permanent relief of approximately $900,000, or 0.5%, was also requested over and above current rates and the requested interim award.

By Order No. G-50-82, dated July 13, 1982, the Commission denied the requested third interim increase and set down the Application for public hearing to commence on September 28, 1982 at Kelowna. The Order also provided that the matter of the interim increase would receive the attention of the Commission promptly following the commencement of the Hearing.

The forestry intervenor group advised the Commission on September 9, 1982 that it proposed to raise the issue of Inland's method of accounting for income tax and in that respect call evidence to justify a return to the "flow-through" method. The Commission considered the matter and by letter dated October 13, 1982, in order to give sufficient notice to Inland and other intervenors, set the matter to be heard in Vancouver commencing November 24, 1982.

At the commencement of the Hearing in Kelowna and after hearing the position of the parties with respect to the 3.2% interim request, the Commission granted a further interim award of 1.6% effective October 1, 1982.

On November 16, 1982, the Commission issued Order G-78-82 approving an application by Inland to issue authorized shares of the Company in exchange for issued and outstanding shares of Trans Mountain Pipe Line Company Ltd. The order contained specific provisions to ensure that, as a result of the share exchange, there should be no adverse impact on the public interest, the interests of consumers or restrictions on the authority of the Commission under the Act.

The Rate Application was heard in Kelowna from September 28 to October 1, 1982 and from October 5 to 8, 1982. The subject of income taxes was addressed in Vancouver from November 24 to 26, 1982. Final argument was heard in Vancouver on December 7 and 8, 1982.

The Application and the Hearing occurred at a time when the economy of the province was experiencing a trying period. This was no more evident than in the condition of the forest industry, a major contributor to the industrial load of Inland. Evidence was called by intervenors for this industrial group, all opposed to an increase, to demonstrate the serious condition of that group and the drastic measures which were being taken to maintain economic viability.

C. FISCAL 1982 TEST PERIOD

Inland submitted information showing a normalized return on common equity of 13.8% for the fiscal year ending June 30, 1982, as shown on Schedule V, which was less than the rate of 16.5% allowed in the March 18, 1981 Decision.

Large increases in operation and maintenance expenses substantially in excess of those projected had a significant effect on the earnings for this period. However, as the actual earnings were significantly lower than the approved return of the utility, Commission adjustment to results will serve little purpose.

D. FISCAL 1983 TEST PERIOD

1. Rate Base

The Commission's comments and adjustments to Rate Base are:

(a) Capital Additions

The Applicant had originally forecast mid-year plant additions of $5,873,530 (Exhibit 7) which amount was subsequently revised to $9,128,253. This revision was made primarily on account of the Applicant's planned expansion through the Distribution System Expansion Program (D.S.E.P.) and the Gas Extension Assistance Program (G.E.A.P.).

Subsequent to examination of its planned capital expenditures at the public hearing, the applicant re-examined its forecast and presented a revised estimate of $8,693,453 (Exhibit 50). This downward adjustment was made by the deletion of non-essential capital expenditures.

The Commission is of the opinion that the capital additions still planned for the test year include items which are not essential for the immediate requirements of the utility and can be deferred. Therefore, the Commission has further reduced the planned mid-year capital additions by $250,000. The specific projects to be deferred have been left to the discretion of management.

(b) Tumbler Ridge Hearing Costs

The Applicant had incurred expenditures in the amount of $89,100 related to its application to serve Tumbler Ridge.

In the Tumbler Ridge Decision of April 1, 1982, the Commission stated that the appropriate disposition of hearing costs would be considered at the next rate proceeding of each utility involved in that Application. Inland therefore included its Tumbler Ridge hearing costs in Rate Base pending the determination of the treatment to be accorded these costs.

Consistent with existing policy, the Commission is not prepared to accept the recovery of such costs from the customers of the Inland system. By allowing utilities to recover all costs associated with such applications, regardless of outcome, the Commission would shield the shareholders from any risk and simply pass the burden to consumers. The Commission has concluded that such costs are properly the risk of shareholders and will exclude the Tumbler Ridge hearing costs of $89,100 from the cost of service.

(c) <u>Amortization of Deferred Interest</u>

In the Decision of March 18, 1981 the Commission allowed Inland to include short-term debt in the capital structure at a rate of 13% and further directed Inland to create a deferred account to absorb fluctuations in short-term interest rates above or below the 13% rate.

Pursuant to that Decision, Inland included an amount of $1,139,261 in Rate Base for deferred interest pending determination of the proper treatment by the Commission. This amount included interest incurred on short-term debt at rates in excess of 13% for the period March 18, 1981 to June 30, 1982 and a portion of long-term interest in excess of 13% for the period November 18, 1981 to January 31, 1982. The latter amount was included by Inland on the basis that the Company did not obtain relief for increased interest costs due to a refinancing occurring on November 18, 1981, until January 31, 1982.

Inland recommended the following treatment :

(a) The amount of the deferred interest of $1,139,261 be amortized over the life of the Series B Debenture issue to November 15, 1996.

(b) the annual amortization be included in the embedded cost of long-term debt in the cost of capital.

(c) the annual amortization be deducted in the Income Tax calculation.

(d) such amortization to commence concurrently with amended rates.

Upon review of the evidence, the Commission is of the view that balances remaining in such accounts should be written off to expense as soon as circumstances permit. Accordingly the Commission finds that the entire amount of $1,139,261, relating primarily to short-term interest rate fluctuations from 13% for the period March 18, 1981 to June 30, 1982, is to be written off in the 1983 fiscal year.

The Commission agrees with Inland that the Interest Deferral Account should be continued. In the Commission's view it will shield the customer and shareholders from the risks of interest rate fluctuations and in doing so, will mitigate a significant financial risk of the shareholders and protect the customers from undue fluctuations in utility rates.

The Interest Deferral Account will therefore continue by applying the variation of the actual short-term debt cost each month from that allowed by the Commission, to the amount of rate base financed by short-term debt.

(d) Management Audit Fees

Management audit fees of $73,205 paid to Ronald Doades and Company and $52,329 paid to Touche Ross & Co. were deferred in Inland's accounts and included as a part of Rate Base pending a determination by the Commission. The Doades audit was initiated by Inland prior to the commencement of the Touche Ross audit directed by the Commission. While both audits were performed at approximately the same time, the emphasis and conclusions varied and the Commission considers both audits to be of value.

The Commission expects that the implementation of several of the recommendations will have positive results for consumers and therefore will accept the cost of the management audit fees as a cost to customers and directs Inland to expense the cost of $125,534 to the cost of service in the 1983 fiscal year.

(e) Inventories

For a number of years the Commission has disallowed a portion of inventories from Inland's Rate Base. The disallowance was made because Inland was unable to demonstrate, to the satisfaction of the Commission, either the need for the total inventory level or of adequate inventory management and control.

Both of the management audits investigated the inventory situation and reported that Inland's inventories are not excessive in relation to the scope of the utility and that the Company has taken steps to improve its inventory management and control system.

Accordingly, the Commission will allow the inclusion of the entire inventory in Rate Base.

(f) 1982 Rate Hearing Costs

Total 1982 rate hearing costs of Inland and the Commission amounted to $148,765.

In addition, costs of $27,088 were incurred by the forestry intervenors in the calling of expert evidence from Dr. W.R. Waters and Mr. H.W. Johnson, on the matter of accounting for income taxes.

In the review of the evidence presented by all of the parties to this Application, the Applicant and intervenors are to be commended in the reasonable approach that was taken at the hearing and in the presentation of concise evidence. In particular, the Commission is appreciative of the contribution of Mr. C.I. Kleven, Vice-President Finance and chief policy witness for the Applicant.

Inland incurred costs of $20,355 for rate of return testimony. The Commission finds that the evidence and testimony presented was of little value in reaching conclusions on the return to be allowed to the Applicant and therefore cannot allow this cost to be recovered from customers.

The Commission will allow recovery of the forestry intervenors' costs of $27,088. The Commission wishes to make it clear that decisions on the recovery of costs are made on a case by case basis and are very much influenced by the quality of evidence and the nature of the subject matter. In this instance, accounting for income taxes involved questions of regulatory principle. The testimony was helpful not just to the forestry group but to all utility customers in the service area.

(g) Amortization of Grants and Contributions

The Commission accepts the Applicant's proposal to amortize government grants and contributions in aid of construction, by crediting depreciation expense, commencing July 1, 1983.

2. Gas Sales Volume

After careful examination of the evidence the Commission considers there is insufficient reason to make any significant adjustment to Inland's sales volume forecast.

Although Inland consistently sells a small quantity of Rate 13 gas, it did not forecast selling any Rate 13 gas in the test period. While the Commission will make no adjustment, it directs that Inland include in future rate applications, a sales volume figure for Rate 13 sales based upon a three year moving average.

The forecast sales volume of the Applicant includes a provision for loss of sales volume as a result of strikes. An amount of 700,000 GJ was calculated based upon the average annual loss of sales volume due to strikes over the last ten years. The Commission believes that this provision should continue as it shields the Applicant from business risk and enhances the shareholders' opportunity to earn the approved return. From the point of view of customers it slightly increases the average cost but as it improves the quality of earnings this increase is offset to a large extent through the mechanism of the cost of capital.

3. Operation and Maintenance Expenses

In the Application of June 21, 1982, Inland had requested recovery of $15,866,000 for operating and maintenance expenses. This would have amounted to an increase of $2,673,000 or 20.3% from actual fiscal 1982 costs.

Upon denial of its interim request of 3.2% to be effective July 1, 1982, Inland took steps to reduce fiscal 1983 expenditures as much as possible. For example, it is apparent that Inland has instituted a hiring freeze and furthermore, replacement of terminating employees is made only upon the authority of the executive level of the Company. It appears also that all controllable expenses are being examined carefully before being incurred and travel and the use of consultants are now severely limited.

As a result of these measures and of adjustments made by the Applicant after cross-examination at the hearings, Inland submitted a revised figure of $14,886,000 for operation and maintenance costs in Exhibit 50, a reduction of $980,000 from the figure originally put forward.

During the hearings the subject of efficiency was discussed at length. The Applicant's position was that it maintains an efficient operation and that further cost curtailment could have an impact on the quality of service. It was, however, unable to demonstrate that the hiring of new employees would lead to greater efficiency and would benefit customers. The position of the forestry group of intervenors was that measures introduced by Inland to control costs were not drastic enough and did not reflect the type of measures introduced by the forestry customers themselves.

The Commission's Decision of March 18, 1981 with respect to operation and maintenance costs was based upon what is "a reasonable expectation .... to maintain safe and reasonable service". In that Decision the Commission awarded an increase in operation and maintenance costs of 4% per customer, as against the 6.5% increase for which application was made.

In the present situation fiscal 1983 costs, as revised, are forecast to increase by 7% per customer to an annual cost of $150.77.

In its review of the evidence the Commission concludes that it must assess operation and maintenance costs using the same test. For fiscal 1983 the allowance for operating and maintenance costs is to be increased by 6% per customer.

The Commission has accepted the need for a 6% increase per customer with some reluctance particularly as the evidence indicates that certain forestry intervenors have had to cut costs of operation. It is apparent, however, that Inland, in the 1983 fiscal period, has made a credible attempt to control costs and that its forecast of operating costs is substantially realistic.

This Commission has consistently viewed with concern any escalation in controllable utility operating costs. The current economic climate makes it imperative that cost controls and prudency be diligently applied at all levels of operation. Accordingly, the Commission proposes to allow an operation and maintenance cost of $149.27 per customer for fiscal 1983 and to utilize this figure as a base in the determination of a fair and reasonable level of expenditure per customer for future fiscal periods.

4. Accounting for Income Taxes

The matter of accounting for income taxes was heard concurrently in respect to Inland and its wholly-owned utility subsidiary, Columbia. Consequently, the comments and conclusions that follow apply equally to Inland and Columbia.

Up until 1977 this Commission recognized the "flow-through" method in accounting for income taxes. In its rate application of 1977, Inland sought and was granted approval to account for income taxes on a "normalized" basis. The principal argument, which led the Commission at that time to allow Inland to collect deferred taxes, was expressed on page 34 of the August 31, 1977 Decision as follows :

> "It appears from the evidence in this case that there was little doubt that the apparent 'deferred taxes' represented a prospective liability for the payment of taxes and that the principal reason for introducing the concept of accounting for deferred taxes was to have the incidence of that liability correctly recognized."

Columbia has been accounting for income taxes on a normalized basis since 1979. Prior to that time the Company was on a flow-through basis.

The Commission heard expert opinion evidence from Mr. H.W. Johnson and Dr. W.R. Waters on behalf of the intervenors. Inland supported the continuation of normalized tax accounting with evidence from Mr. C.I. Kleven and Mr. G.C. Watkins, an expert witness who spoke chiefly to questions associated with inter-generational equity and the method of accounting for income tax.

The Commission has addressed the method of accounting for income taxes against its understanding of the public interest. It believes this to be the provision of the required service at the least cost commensurate with maintaining the financial integrity of the utility having due regard to inter-generational equity.

The principal areas of examination at the hearing were accounting authority, recovery of legitimate costs, the question of inter-generational equity, the cost of collecting deferred tax, the effect of taxation accounting on the credit rating, the impact of shifting patterns of customers and the business environment.

The Commission has concluded that the question of the method of accounting for income taxes must be addressed on a broad basis as there is no single issue which is determinative. Accordingly, before the Commission is prepared to render a decision on this matter, it wishes to examine several additional aspects. In this respect the Commission wishes to hear evidence concerning the potential timing of the crossover point for Inland and Columbia and the measurement of that future liability in discounted terms.

The timing and location for the hearing of the further evidence is set out in the Order which forms part of this Decision.

5. Capital Structure and Cost of Capital

The Applicant's capitalization exceeded the projected rate base and in an effort to balance the two the Applicant introduced the concept of "negative notional short-term debt", which would act to reduce the short-term debt component in the capital structure, but in doing so, would proportionally increase the equity component.

As regulatory accounting practice and diversification into non-regulated activities has meant that the rate base of public utilities rarely equals the capitalization the emphasis turns to the efficiency of the capitalization supporting the rate base. In the case of Inland, taking into account the utility's risk profile, the Commission accepts the corporate capitalization as an efficient capital structure for its utility operations. The rate base is, therefore, deemed to be financed in the same ratio as the corporate capitalization, as indicated on Schedule IV of this Decision.

With respect to the cost of capital the Commission accepts Inland's calculation of 11.54% for the average embedded cost of long-term debt and preference shares and finds that 12.8% is a reasonable estimate of short-term debt cost for the 1983 fiscal period. As indicated on page 7, the Commission will allow the Applicant to continue the deferral of short-term interest cost variations from the interest rate of short-term debt established for rate making purposes. This methodology was established in the previous Decision.

The Application of Inland sought an allowed rate of return of 17.5% on common equity supporting 31% of the rate base. This is to be compared with the allowed return of 16.5% supporting 30% of the rate base per the Decision of March 18, 1981.

Inland's argument in support of a higher return was, to a large extent, judgmental using the risk premium approach with little analysis provided of Inland's risk profile. The comparable earnings test was not used because, in Inland's opinion, the proper base for comparison in an economic down-turn is the yield on preferred shares and debt instruments which are the lower risk investments. The Applicant maintained that in this period of the business cycle it is these instruments with which the returns of non-utility companies must compete if they are to attract common equity capital.

In order to get a full understanding, the Commission requested Inland to provide material on comparable earnings. Inland was requested to update the exhibit used in the 1980 hearing (Exhibit 16, Schedule 9), which reported returns on average common equity of 25 representative Canadian companies. This table showed average earnings of 16.5% for 1981 with indications of an earnings level of around 12% for 1982.

The first question to be resolved is whether or not Inland's approved return on common equity should be increased. The Decision of March 18, 1981 set an approved return of 16.5% applicable to a fiscal 1981 test period. The approved return was based upon the Commission's understanding of Inland's risk profile.

During the present proceedings no evidence was presented indicating a greater exposure to risk. It should be noted that Inland has protection against interest rate fluctuations through the mechanism of the Interest Deferral Account, and protection against drastic reductions in industrial sales through the existence of a number of take or pay contracts set at a minimum take or pay of 70% of monthly contracted volume.

Of equal significance to risk are comparable earnings. As indicated previously, average earnings in 1981 for comparable risk companies was 16.5%, the approved rate of return for Inland in this period. The evidence indicates the equity returns for comparable risk equity investments to be about 12% in 1982 with only gradual improvement forecast for 1983.

The Commission concludes that it cannot approve an increase in Inland's equity return in a period where earnings of comparable risk companies have declined significantly and where there is no evidence to support greater risk to Inland.

The second question is whether or not a reduction to the approved return should be made at this time. The view of the Commission is that the Company's financial integrity must be maintained because of the essential nature of its service. On the other hand, Inland's shareholders should not be completely shielded from market forces and general economic conditions. Its earnings should relate to returns experienced by comparable companies.

In the regulation of Inland, this Commission employs several mechanisms which enhance the Company's ability to meet its approved return thereby greatly reducing risk. These include :

1. Use of interim refundable rate increases.

2. Use of "pass-through" rate adjustments to recover uncontrollable cost increases over which the utility has no effective control, such as gas supplies and taxes.

3. Use of a short-term interest deferral account.

4. Use of an allowance for strikes in the cost of service.

It is to be noted that, although the common equity component represents 31% of the capitalization, a further 13% is represented by preferred shares giving an aggregate equity and quasi-equity component of 44%. Also, Inland's business risk is much reduced through the use of take or pay contracts with industrial customers which affords the Company considerable down-side risk protection.

In weighing the foregoing factors, the Commission finds that a reduction to Inland's approved return will not impair the Company's financial integrity and is in the overall public interest. Accordingly, the Commission finds that the Applicant should have the opportunity to earn a return on common equity in the range of 15.5% to 16% in the test year.

6. Other Matters

(a) Planning

Although both management audits identified the need for a formalized long-range corporate planning process, the evidence presented during the public hearing indicated that management action on this objective was "on hold".

The view of the Commission is that a formalized longer-range corporate planning process should be instituted using existing resources as soon as circumstances permit, so that the Company may be in a better position to anticipate and prepare for changes in its business activities.

(b) Extension Policy

During the hearing there was discussion on Inland's mains extension capture rate.

The mains extensions tariff filed with the Commission states as follows :

> "The Company will normally, at its cost, construct extensions to serve one or more prospective permanent customers, provided that Six (6) times the aggregate net annual revenue from the customer or customers equals or exceeds the cost of constructing the extension. However, the Company may require developers, builders, homeowners, commercial and industrial accounts, etc. to provide a contribution, guarantee and/or special contract, in order to give some assurance that the estimated revenue will materialize."

Pursuant to the tariff, Inland estimates the aggregate net annual revenue for each proposed extension to determine the conditions under which construction should be undertaken.

The filed evidence indicated that the forecast capture rates, being the basis for construction of extensions, were optimistic to a large degree. The Commission does recognize, however, that a major reason for this may be the downturn in the construction industry. Whatever the cause, it is apparent that Inland has not enforced the provisions of the tariff in obtaining some assurance that the estimated revenue will materialize.

The Commission expects Inland to conform to the filed tariff. If it considers itself unable to do so, then the Company should apply to this Commission for amendment to its extension policy.

(c) Distribution Sales Promotion

Expenditures on Distribution Sales Promotion, in the categories of "supervision", "advertising" and "demonstration and selling expenses", amounts to approximately $800,000 annually, or about 5% of the operation and maintenance budget.

The Commission is concerned that Inland has been unable to demonstrate a clear linkage between cost and customer benefit and expects the Applicant to review closely the need for expenditures of this nature.

(d) Take or Pay Contracts

The industrial intervenors raised several matters associated with the terms and conditions of industrial sales contracts. In response thereto, and with the approval of the intervenors, the Applicant undertook to engage an independent expert on rate design to examine the concerns and, if necessary, to recommend changes.

The understanding of the Commission is that Inland will discuss the findings of the report with the industrial intervenors and if necessary, upon agreement, file specific tariff amendments for Commission consideration. If the concerns are not resolved, the matter can be renewed with the Commission.

THE DECISION

The Commission hereby confirms the following interim rate increases as final increases.

1. An amount of $2,293,881 effective July 1, 1981, given interim approval by Order No. G-49-81.

2. An increase of February 1, 1982 to recover increases in property taxes, given interim approval by Order No. G-16-82.

3. The increase authorized by Order No. G-73-82 effective October 1, 1982.

The Commission has concluded that Inland, based on a fiscal 1983 test year, be allowed an opportunity to earn a rate of return on common share equity of 15.75%, with amendments made to the cost of service as determined in this Decision and as shown on the Schedules.

With respect to the accounting treatment of income taxes, the Commission wishes to examine further evidence dealing with prospective crossover points for Inland and Columbia and the measurement of the future liability in discounted terms. The timing and location for the hearing of this further evidence is addressed in the Order which forms part of this Decision.

Taking the full impact of this Decision into account, Inland is currently overcollecting from its customers to a small degree. In the interest of rate stability, the Commission will not order a refund and will allow the present tariff to remain in effect to June 30, 1983. Inland is directed to file revised tariff schedules before June 30, 1983 which will take into account the findings of this Decision and which are to become effective July 1, 1983.

Inland is to calculate the amount overcollected during fiscal 1983 and credit this amount, plus interest compounded, to the 1984 revenue requirement. The overcollection is to be calculated by taking the difference between the actual tariff billed on and after October 1, 1982 and the tariff that would apply by the use of the revenue requirement and sales volume as shown on Schedule III. This amount is to be multiplied by the actual sales in the period October 1, 1982 to June 30, 1983 and is to be compounded per Commission Order No. G-73-82.

DATED at the City of Vancouver, in the Province of British Columbia, this 25th day of May, 1983.

M. Taylor

M. TAYLOR, Chairman

R.J. Ludgate

R.J. LUDGATE, Commissioner

BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-38-83

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 Inland Natural Gas Co. Ltd.

BEFORE:	M. Taylor, Chairman; and R.J. Ludgate, Commissioner	May 25, 1983

O R D E R

WHEREAS a public hearing pertaining to Inland Natural Gas Co. Ltd. ("Inland") commenced before this Commission at Kelowna, B.C. on Tuesday, September 28, 1982 to hear, inter alia, the following matters:

(a) An Application dated June 25, 1981 for interim increases effective July 1, 1981 to its filed Tariff Rate Schedules.

(b) An Application dated January 27, 1982 for interim increases effective February 1, 1982 to its filed Tariff Rate Schedules to recover an estimated increase in property taxes and the higher cost of debt arising from the issue of $20 million Series B Debentures.

(c) An Application dated June 21, 1982 seeking a further 3.2% interim rate increase and permanent rate relief; and

WHEREAS the Commission at the commencement of the public hearing, and after hearing the position of the parties, granted a further interim rate increase of 1.6% effective October 1, 1982; 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.

.../2

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-38-83

NOW THEREFORE the Commission hereby orders Inland Natural Gas Co. Ltd. as follows:

1. The interim rates currently in effect as authorized by Commission Orders No. G-49-81, effective July 1, 1981; G-16-82, effective February 1, 1982; and G-73-82, effective October 1, 1982 are hereby confirmed as permanent increases.

2. The Rate Base for the Test Year ending June 30, 1983 is approximately $117,482,861.

3. The Total Revenue Requirement for the Test Year ending June 30, 1983 is approximately $167,001,551.

4. The Commission directs Inland to file revised Tariff Rate Schedules prior to June 30, 1983, effective with consumption on and after July 1, 1983. The amended Tariff Rate Schedules will allow Inland an opportunity to earn a rate of return on common share equity of 15.75%.

5. The Commission has determined that Inland is currently overcollecting from its customers to a small degree and directs Inland to calculate the amount overcollected during fiscal 1983 and to credit that amount, plus interest compounded, to the 1984 revenue requirement.

6. The matter of Accounting for Income Taxes will be concluded at a forthcoming public hearing to be held in the Commission Hearing Room on a date to be determined. Accordingly, Inland is directed to file evidence in accordance with the matters referred to in the Decision on or before August 31, 1983.

DATED at the City of Vancouver, in the Province of British Columbia, this 25th day of May, 1983.

BY ORDER

M. Taylor

Chairman

SCHEDULE I

MID-YEAR UTILITY RATE BASE FOR
THE YEAR ENDING JUNE 30, 1983

Particulars	Application (Exhibit 50)	Commission Adjustments	Adjusted Balance
Gas plant in service	$ 152,291,689	-	$ 152,291,689
Additions to gas plant in service	8,693,453	$(341,354)[a]	8,352,099
Intangible plant	987,727	-	987,727
Construction work in progress	653,000	-	653,000
Less: Customer advance on construction	(293,000)	-	(293,000)
Gross plant	$ 162,332,869	$(341,354)	$ 161,991,515
Less:-Contributions in aid of construction	(4,774,800)	-	(4,774,800)
-Distribution System Expansion Program Grants	(1,589,913)	-	(1,589,913)
-Gas Expansion Assistance	(129,067)	-	(129,067)
	$ 155,839,089	$(341,354)	$ 155,497,735
Accumulated depreciation	(28,490,791)	-	(28,490,791)
Adjustment to accumulated depreciation	(1,574,810)	-	(1,574,810)
Net plant	$ 125,773,488	$(341,354)	$ 125,432,134
Deferred income tax	(8,927,119)		(8,927,119)
Deferred management audit fees	125,534	(62,767)[b]	62,767
Deferred Tumbler Ridge hearing costs	89,100	(89,100)[c]	-
Deferred interest	1,139,261	(569,630)[d]	569,631
Working capital allowance			
-Cash working capital	(2,790,850)		(2,790,850) *
-Other working capital	2,587,549	548,749 [e]	3,136,298
Utility rate base	$ 117,996,963	$(514,102)	$ 117,482,861

* adjustment immaterial

NOTES TO SCHEDULE I

(a)	$500,000 reduction in plant additions		
	Mid-Year rate base adjustment		$(250,000)
	Overhead capitalized as per Application	$ 3,172,000	
	Reduction in plant additions		
	$\frac{\$8,443,453}{\$8,693,453} = 0.9712$		
	Adjusted Overhead Capitalized		
	$3,172,000 x 0.9712 =	$ 3,080,646	
	Mid-Year rate base adjustment		$(91,354)
	Reduced Additions to Gas Plant in Service		$(341,354)
(b)	Deferred management audit fees	$ 125,534	
	Mid-year rate base adjustment		$(62,767)
(c)	Refer to page 5 of this Decision.		
(d)	Deferred interest	$1,139,261	
	Mid-year rate base adjustment		$(569,630)
(e)	Refer to Schedule II		

OTHER WORKING CAPITAL ITEMS FOR THE YEAR ENDING JUNE 30, 1983

	Application (Exhibit 9)	Commission Adjustment	Adjusted Balance
Rate hearing costs	-	$ 77,749 [a]	$ 77,749
Inventories	$1,906,500	471,000 [b]	2,377,500
Transmission line - pack gas	277,598	-	277,598
Peak shaving - gas	167,451	-	167,451
Merchandise - accounts receivable	236,000	-	236,000
Total	$2,587,549	$548,749	$3,136,298

NOTES TO SCHEDULE II

(a) Rate hearing costs at July 1, 1982	$ 155,498
Amortization	(155,498)
Rate hearing costs at June 30, 1983	$ -
Mid-Year rate base adjustment	$ 77,749

(b) Refer to page 8 of this Decision.

SCHEDULE III

UTILITY INCOME AND EARNED RETURN FOR THE YEAR ENDING JUNE 30, 1983

	Application (Exhibit 50)	Commission Adjustments	Adjusted Balance
Gas sales volume (Gj)	50,966,445	-	50,966,445
Utility revenue -gas sales	$ 167,125,062	$ 123,511	$ 167,001,551
Expenses			
Purchase of gas	116,721,471	-	116,721,471
Operation/Maintenance	14,885,782	(148,056) [a]	14,737,726
Property, franchise, and sundry taxes	8,958,552	3,700 [d]	8,962,252
Deprec. & amortization	3,427,333	1,420,293 [b]	4,847,626
Other operating revenue	(589,389)	-	(589,389)
	$ 143,403,749	$ 1,275,937	$ 144,679,686
Utility income before taxes	$ 23,721,313	$(1,399,448)	$ 22,321,865
Income taxes -payable	$ 6,463,447	$(752,903)	$ 5,710,544
-deferred	1,895,591	65,617	1,961,208
	$ 8,359,038	$(687,286)	$ 7,671,752 [c]
Earned Return	$ 15,362,275	$(712,162)	$ 14,650,113
Utility Rate Base	$ 117,996,963		$ 117,482,861
Rate of Return	13.02%		12.47%

NOTES TO SCHEDULE III

(a) Adjustment to Operation and Maintenance Expenses

1982 operating cost per customer	$ 140.82
6% increase	x 1.06
1983 operating cost per customer	149.27
1983 customers	98,732
1983 operation and maintenance expense	$14,737,726

(b) Adjustment to Amortization Expense

deferred management audit fees	$ 125,534
deferred interest	1,139,261
rate hearing costs	155,498
	$ 1,420,293

(c) Calculation of Income Taxes

2.	Earned return	$14,650,113
3.	Deduct-Interest on debt	7,815,592
4.	Add-Non-tax deductible expenses (net)	(246,511)
5.	Accounting income after tax	$ 6,588,010
6.	Deduct-Timing diff. adjust.	3,645,368
7.	Taxable income after tax	$ 2,942,642
8.	Income tax rate (current tax)	53.8%
9.	1 - current income tax rate	46.2%
10.	Income tax rate (deferred tax)	53.8%
11.	Taxable income before income tax (L7 ÷ L9)	$ 6,369,355
12.	Add-Amount required to provide for deferred tax (L6 x 53.8% ÷ 46.2%)	4,245,039
13.	Taxable Income	$10,614,394
14.	Income tax - current (L13 x L8)	5,710,544
15.	deferred (L6 x L10)	1,961,208
	Total	$ 7,671,752

(d) Provision of Additional Franchise Fees

3% of $123,511	$ 3,700

SCHEDULE IV

UTILITY CAPITALIZATION

	Capitalization Amount	Capitalization %	Cost	Weighted Average
Short-term debt	$ 5,915,745	4.72%	12.8%	0.60%
Long-term debt	64,361,767	51.33	11.54	5.92
Preference shares	16,545,000	13.20	8.40	1.11
Common equity	38,560,005	30.75	15.75	4.84
	$125,382,517	100.00%		
Return on Rate Base				12.47%

SCHEDULE V

UTILITY INCOME AND EARNED RETURN
FOR THE YEAR ENDED JUNE 30, 1982

SALES VOLUME (GJ)	49,533,300
UTILITY REVENUE	
Gas Sales - Existing Rates	$147,422,240
EXPENSES	
Purchase of Gas	104,613,754
Operating and Maintenance	13,188,219
Property, Franchise and Sundry Taxes	7,996,584
Depreciation and Amortization	3,376,380
Other Operating Revenue	(554,914)
	128,620,023
Utility Revenue Before Taxes	18,802,217
Income Taxes - Current	4,746,788
- Deferred	1,834,799
Total	6,581,587
EARNED RETURN	$ 12,220,630
UTILITY RATE BASE	$109,063,342
RATE OF RETURN ON UTILITY RATE BASE	11.2%
APPROVED RATE OF RETURN ON COMMON EQUITY	16.5%
ACTUAL RATE OF RETURN ON COMMON EQUITY	13.8%

APPENDIX I

OPERATING COST PER CUSTOMER

Year	Average No. of Customers	Normalized O & M Costs	Cost	% Change
1979	76,075	$ 8,551,225	$112.41	
1980	80,072	9,213,058	115.06	2.4%
1981	86,444	10,459,430	121.00	5.2
1982	93,652	13,188,233	140.82	16.4
1983	98,732	14,737,726	149.27	6.0

LIST OF EXHIBITS

LIST OF EXHIBITS
(Cont'd)

LIST OF EXHIBITS
(Cont'd)

LIST OF EXHIBITS
(Cont'd)

LIST OF EXHIBITS
(Cont'd)

Note: Lettered exhibits refer to both Inland and Columbia hearings.