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IN THE MATTER OF
THE UTILITIES COMMISSION ACT
S.B.C. 1980, c. 60, as amended
and
IN THE MATTER OF
WEST KOOTENAY POWER AND LIGHT
COMPANY, LIMITED
APPLICATIONS FOR RATE RELIEF

DECISION

MAY 31, 1983

BEFORE:

M. Taylor, Chairman;

J.D.V. Newlands, Deputy Chairman; and

N. Martin, Commissioner

The Application of West Kootenay Power and Light Company, Limited dated November 15, 1982 to amend its filed tariffs was heard in public hearing in Rossland, British Columbia on January 25, 26, 27 and 28; February 1, 2 and 3; and in Vancouver, British Columbia on February 7, 1983 with final argument.

The Commission comprised M. Taylor, Chairman; J.D.V. Newlands, Deputy Chairman; and N. Martin, Commissioner.

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APPEARANCES

R. J. Gibbs	Commission Counsel
G.K. Macintosh and J. Wilson	West Kootenay Power and Light Company, Limited
K.E. Gustafson	City of Nelson
N. Smith and B. Price	Southern Interior Stockmen's Association and B. C. Cattlemen's Association
R.B. Wallace	Forest Group: Atco Lumber Ltd. B.C. Timber Ltd. Crown Zellerbach H.J. Huscroft Ltd. Pope & Talbot Ltd. Slocan Forest Products Ltd. T & H Sawmills Ltd. Weyerhaeuser Canada Ltd.
	Municipalities of: City of Kelowna City of Penticton District of Summerland
J. Woodward, M. Anderson, and J. Fast	Consumers Association of Canada, B.C. Branch
R. King	Kelowna Growers Co-Operative, Sun-Rype Products Ltd. and Okanagan Federated Shippers Association
E. Bealle	Keremeos Irrigation District Fairview Heights Irrigation District
D. Pearce	Regional District of Central Kootenay
Rev. H.D. Bayne	East Trail United Church

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(cont'd)

M.E. Rodlie	Self
R.M. Lauer	Self
M. Morris	Self
W.R. Harper	Hearing Officer
R.J. Fletcher S.S. Wong	Commission Staff
Allwest Reporting Ltd.	Court Reporters

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1. INTRODUCTION

West Kootenay Power and Light Company, Limited ("WKPL", "the Applicant" or "the utility") is an electrical utility regulated under the provisions of the Utilities Commission Act ("the Act") by the British Columbia Utilities Commission ("the Commission"). WKPL serves residential, commercial, irrigation, street lighting, and industrial customers in an area roughly described as from Princeton in the west to Creston in the east and from the U.S. Boundary north to Kelowna and Kaslo. Within this service area the Company also supplies wholesale power to several municipal utilities and to Princeton Light and Power Company Limited. Since 1916 WKPL has been a wholly-owned subsidiary of Cominco Ltd. ("Cominco").

The Company was incorporated by an Act of the British Columbia Legislature on May 8, 1897. The Act authorized WKPL to generate, transmit and distribute power within a radius of 50 miles of Rossland, British Columbia. That radius was subsequently expanded to 150 miles in 1929.

WKPL is controlled by Cominco which owns all of the common shares of WKPL and about 30% of the preferred shares with the balance of the preferred being held by Canadian Pacific Enterprises Ltd., a subsidiary of Canadian Pacific Limited.

As at 1981 the Company had issued and outstanding the following share capital:

5,000 shares of par value $100 each
7% Cumulative Preferred Stock

61,120 shares of par value $100 each
Common Stock

A further 200,000 common shares with a par value of $100 each common stock were issued to Cominco in 1982 in consideration for the purchase of three power plants, namely Upper Bonnington, South Slocan and Corra Linn.

In addition to these plants, generation is supplied from Lower Bonnington with the balance primarily from Cominco and B.C. Hydro. A small purchase was made from Bonneville Power Administration ("BPA") for general system use for the first time in the summer of 1982.

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

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

*Source - Canal Plant Subagreement

WKPL operates Brilliant and Waneta for Cominco and receives a fee for its services. Its right to surplus power from these two plants is contained in the 'Sale of Surplus Power Agreement' of November 21, 1980 and subsequent amendments. The terms of operation of the plants are set out in the 'Omnibus Agreement' dated January 1975 and subsequent amendments also between WKPL and Cominco.

B.C. Hydro owns and operates the Canal Plant on the Kootenay River. The building of the Canal Plant by B.C. Hydro optimized the total generating capacity of the Kootenay River system. Consequently, B.C. Hydro by way of the Canal Plant Agreement dated August 1972, gave average peak and average energy assurances to Cominco/WKPL to the year 2005. The advantage to Cominco/WKPL is that they now have a guaranteed source of base power. This block of power greatly facilitates the planning process and reduces the supply and cost risks associated with purchased power.

The "Sale of Surplus Power Service and Exemption Order" issued by the Minister of Energy, Mines and Petroleum Resources on July 28, 1982 set down certain conditions in exempting Cominco from the Utilities Commission Act. Having received from WKPL and Cominco their intention of compliance with these conditions, the Commission, on December 14, 1982, issued Orders:

1. G-85-82 - authorizing the issue of 200,000 common shares by WKPL to Cominco Ltd.

2. G-86-82 - approving the Sale of Plants Nos. 2, 3 and 4.

3. C-8-82 - issuing a Certificate of Public Convenience and Necessity to WKPL for the operation of Plants Nos. 2, 3 and 4 and related and associated facilities.

As of January 1, 1983, WKPL has regained ownership of Plants Nos. 2, 3 and 4 plus an option to expand generating capacity at Brilliant and Waneta.

2. THE APPLICATION

On November 15, 1982 WKPL made application to the Commission to amend certain terms and conditions of its electric service and its filed rate schedules. WKPL requested a 9.8% interim and permanent rate increase applicable uniformly to all classes of service to be effective January 1, 1983. Because of the short period of time between the requested effective date and the hearing date of the application, the Applicant's request for interim relief effective January 1, 1983, was denied and a hearing date of January 25, 1983 was set pursuant to Order G-89-82.

On January 20, 1983 WKPL requested that their original rate request be supplemented by additional information and further requested an interim increase of 7.8% applicable to consumption on and after January 1, 1983 or 8.7% if effective on February 1, 1983.

3. THE ISSUES

The Applicant applied for permanent rate relief based on the forecast test year of 1983. In addition, the Applicant sought certain accounting changes. This decision considers the above matters as well as treatment of income taxes. A number of other points were raised at the public hearings which were of concern to many participants and warrant consideration here by the Commission.

3.1 AFUDC Calculation

The accounting treatment of the cost of money used for construction purposes varies by regulating body. Utilities regulated by the B.C. Utilities Commission are allowed to capitalize an allowance for the funds devoted to construction. In the case of WKPL the allowed cost is based on the amount of funds used times a rate equal to the cost of bank borrowing. In addition there is provision within the Uniform System of Accounts prescribed by the Commission for the utility to use other than bank debt. Account 307 includes the net cost, for the period of construction, of borrowed funds used for construction purposes and a reasonable rate on other funds when so used[1].

The Applicant in this proceeding is seeking permission of the Commission to incorporate in the cost of funds the average cost of capital. In addition WKPL

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(1) Source - BCUC Uniform System of Accounts, Account 307.

is seeking to have the work in progress based on the above calculation included in its rate base thereby earning an additional return thereon.

When comparing the existing and the proposed methods of treating interest on funds used during construction the difference that results is minimal in this test period, due to the relationship between the total return on rate base and the cost of borrowed funds to WKPL. More importantly the Applicant's proposed method results in a more equitable treatment of the cost of funds used during construction. The Commission concurs with the Applicant's proposed method and approves the composite rate put forward by the Applicant. The inclusion of work in progress subject to AFUDC in the rate base is discussed in the rate base section of this decision.

3.2 WKPL Contracts Status

During the course of the hearing the Commission became concerned as to the relative position or inter-dependence of WKPL in its relations with Cominco, B.C. Hydro and BPA. Many references were made to the WKPL contracts with B.C. Hydro and Cominco and it became apparent that WKPL was not taking a strong independent position.

From 1981 to 1983, WKPL's power requirements were supplied from the following sources:

	Actual 1981	%	Fore-cast 1982	%	Fore-cast 1983	%
Hydroelectric Plants*	1,509	73	1,504	69	1,509	67
Purchases:						
Cominco	571	27	611	28	658	30
B.C. Hydro	-	-	51	2	75	3
BPA and Others	-	-	28	1	-	-
	2,080	100	2,194	100	2,242	100

* Plants include Plant Nos. 1, 2, 3 and 4.

Source - Exhibit 1, Tab 3 pages 10-11; Tab 5, page 10.

The Ministerial Order of July 28, 1982 exempted Cominco from the Utilities Commission Act with certain conditions. Aside from the transfer of Upper Bonnington, South Slocan and Corra Linn plants to WKPL, Cominco is required to sell firm power of 75 aamwh (or 657 Gwh) to WKPL from 1983 to 1990 and WKPL has the right of first refusal to other surplus on an interruptible basis. In addition, WKPL could expand generating capacity at Brilliant and Waneta.

WKPL started purchasing energy from B.C. Hydro in the winter of 1981. A Letter Agreement between the two parties was approved by the Commission. A renewal Letter Agreement dated October 13, 1982 was filed in WKPL's 1983 Application. Currently WKPL purchases power from B.C. Hydro at approximately the equivalent of the BPA 9 m/kWh $U.S. rate.

WKPL has purchased small amounts of energy from BPA until 1982 when it bought 28 Gwh at an average price of 2.4 m/kWh (Exhibit 1, Tab 5, page 10). BPA has forecast a surplus for the first quarter of 1983, however, WKPL has been able to obtain the equivalent surplus from B.C. Hydro at an equivalent price.

Interconnection between utilities can be a complicated and complex matter. An Operating Agreement between WKPL and Cominco required by the Ministerial Order is currently being negotiated. It would include provision for interconnection between WKPL and Cominco (Transcript 1064). Cominco has interties with B.C. Hydro and BPA. Meanwhile, WKPL has interconnections with B.C. Hydro at several different locations, but no significant direct interconnection with BPA and is reliant upon Cominco in this regard.

Throughout the years WKPL has entered into these contracts with B.C. Hydro, Cominco and BPA involving power supply, storage and interconnection. During the hearing it became apparent that the Applicant's witnesses were not completely familiar with these contracts. The question arose as to why there is uncertainty in these important contracts. This may be because they are not used at all, little used, seldom up-dated or even that these are long-term contracts irregularly renewed. None of the above reasons would indicate that WKPL has been aggressive in taking full advantage of the terms and conditions of the contracts.

The evidence suggests that the Applicant's effort and ability to maintain these contracts have been less than satisfactory. Examples are:

1. Cominco demand for spillage in determining purchased power costs.

2. Inability to take advantage of a storage agreement with B.C. Hydro (Transcript 1314 and Exhibit 56).

3. Inability to enter into a formal written agreement with Cominco on the procedure of importing power (Transcript 1063) or become a party in an equi-change agreement between Cominco and BPA (Transcript 1068).

The Commission believes the above creates unnecessary business risks and accordingly the Applicant is expected to administer its contracts in a more prudent business manner.

It was the wholly-owned subsidiary in relations with Cominco and what Cominco would 'like' or 'not like' that was paramount in the thoughts of the Applicant's witnesses. B.C. Hydro was described by them as a large, dominant competitor who could put up with or suppress any WKPL desire in favour of their own. WKPL needs a stronger self-centered image of itself and possibly a direct intertie with BPA would give them more individuality with Cominco, just as a storage position with utilities other than B.C. Hydro might strengthen their position with B.C. Hydro. This thought of being in an inferior position does not enable WKPL to best serve its customers and investors. In the future WKPL should strive to strengthen its own corporate position.

3.3 Reliability of Forecasts

Throughout WKPL's presentation many of their forecasts were subject to criticism since some numbers were not common (i.e., inflation rates) throughout the projections. Demand and Supply projections, even recently produced, contained weak assumptions. No detailed statistics on housing growth, selected use or conservation impact were shown.

Evidence given in this hearing has caused some doubt about the methodology and reliability of the Applicant's forecasts, particularly the forecast of new customers (Transcript 868-890). In order to support answers on distribution plant investment per new customer, the Applicant had to increase its 1982 forecast number of customers (nine months actual, three months forecast) by 41%, and 1983 forecast by 47% (Exhibit 38). Disregarding the merits of these figures, this type of update reduces the credibility of the Applicant's original forecast method. As the Applicant understands, it is its duty to provide all relevant and timely information to the Commission and would be expected to do so in the future.

In response to an information request by the Commission, WKPL prepared a Load Resource Balance Plan for 1983 to 1990 (Exhibit 3, page 16). The Company's witness indicated that the Cominco power availability was given by Cominco and this amounted to a forecast availability of 658 Gwh in 1983, with the balance being purchased from B.C. Hydro.

The purchase from B.C. Hydro initially contemplated a price of 24 mills, whereas the actual purchase price is in the order of 11 mills resulting from B.C. Hydro meeting the BPA price. The Applicant requested a downward adjustment of $559,000 as a result of the aforementioned purchase.

The Applicant forecast inflation in 1983 as 8.5% (Exhibit 1, Tab 5, page 5) which, together with an expected lower wage increase, results in a composite rate of 7.6% (Exhibit 39). However, in its Capital Expenditure Plan WKPL used 11% escalation for 1983 (Exhibit 3, page 7). A revised forecast (Exhibit 39) incorporated the 7.6% adjustment except for distribution extensions. In view of the recent decline in inflation, the Commission believes that an overall 7.6% is a sufficient provision.

The Company spoke of cost restraint in 1982. However, a review of certain operating expenses (Exhibit 1, Tab 5, page 4 and Transcript 1198) showed that although there were reductions many cost categories had increased up to 40% from 1981 to 1982. The Commission believes that cost restraint must be a matter of ongoing concern but such containment of costs should not affect the quality of service provided.

3.4 Capital Expenditures

The Company presented its 1982-1991 Capital Expenditure Plan on Exhibit 3, page 2. It is noted that WKPL deferred or postponed about 40% of 1982 spending to 1983 and after. Similarly the 1983 capital plan is reduced. A review of the Company's 1981 Annual Report (Exhibit 1, Tab 11, page 15) indicated that net funds spent on plant and equipment ranged from $7.5 million in 1976 to $11.7 million in 1981. The Capital Expenditure Plan indicated 1982 and 1983 are basically in line with the past trend, however 1984 to 1991 started with $33.6 million rising to $207 million annually.

With respect to the 1983 test period, the Commission agrees that the additions are justified except certain expenses relating to Distribution Line Extensions. In determining the merit and prudence of a forecast, the Commission would normally look at past comparisons and forecast methodology; Exhibits 38A, 38B and 38C provide the Applicant an opportunity to reconcile its current forecast with the investment per new customer concept. It is understandable that the unit cost (crew costs, etc.) would increase per installation as the number of customers decreases due to fixed costs and diseconomies of scale. When costs are broken down between customer additions and upgrading (Exhibit 38C), the Commission finds that 1983 investment per new customer is about $600 in excess of the 1980 to 1982 average, a downward adjustment to plant in service or ($600 x 1,300 x 1.345[2]) = $1,049,100 is therefore assessed. With regard to the upgrading, the Applicant, by letter dated February 16, 1983, reduced the estimated system upgrading costs by $596,000.

3.5 Service Area Economy

The Commission was made aware of the general state of the economy throughout WKPL's service area. From major industrial users to small householders, customers of WKPL were concerned enough about the potential increase and its effect on their already weakened profit or loss and income situations to make specific presentations to the rate hearing. Many major users are operating their plants on a reduced basis. The Cattle Growers and Fruit Co-operatives have seen major decreases in the price of their product over the last few years. The City of Nelson does not believe it can pass on to its customers any increase in power rates in excess of the Provincial '6 and 5' Guidelines for Restraint. In addition a number of concerned citizens spoke to the high rate of unemployment and wage cuts, and in general their concerns over their ability to continue to pay increasing electric rates.

The purpose of regulation is to substitute the process of free competition. If a business in a market charges a price more than the customer is willing and able to pay, the recourse by the customer is substitution. In the long run, a utility may price itself out of the market (Transcript 109), and the resource is

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(2) 1.345 is the inflation adjustment from 1980-1983 dollars as provided by WKPL.

hence misallocated or wasted. The utility in a captive market does not have that natural check and balance but rather it is the responsibility of the regulating body to provide a control that artificially restricts excessive demands of the utility. The Commission therefore has to ensure the price the utility charges is close to what the customer would be paying in a free market place. Testimony produced a concern on the part of the Commission for the ability of WKPL customers at this time to not only pay any increased charges but also as to the ability of a number of industrial users to pass on the increase in the price of their product.

3.6 Billing

WKPL has recently revised the format of its billing and introduced a new bi-monthly billing plan as well as a bi-monthly payment plan. The combination of these developments has created uncertainty, misunderstanding and anxieties on the part of WKPL customers. The new format produces confusion regarding the amount to be paid with no detail as to the calculation of the amount. The utility indicated that it would cost approximately $60,000 to provide the detailed calculation. The utility has assured the Commission that remedial action is underway and will be completed soon. Thus the Applicant would not require a Commission order requesting action. The Commission believes that it is warranted that a detailed calculation be incorporated in the revised bill as part of the new format. The Commission will be watchful of the corrective action, its timing and most particularly its results.

3.7 Rate Base

The Applicant in this proceeding has used a forecast rate base for the year ending December 31, 1983. The forecast rate base for 1983 is significantly higher than the actual 1982 rate base by virtue of the purchase of Upper Bonnington, South Slocan and Corra Linn plants from Cominco.

In addition to the appropriate treatment to be awarded above, consideration must also be given to the Applicant's request to include work in progress subject to AFUDC in the rate base. A further concern with regard to the size of the rate base, is the appropriate treatment to be given to certain major capital additions.

(a) Work in Progress Subject to AFUDC

The Commission dismisses the proposal by WKPL that work in progress subject to the AFUDC provision should be included in the rate base, prior to completion of construction. To do otherwise would cause a duplication of credit for the costs incurred.

(b) Adjustments for Major Additions

In the past, WKPL made adjustment to the rate base to reflect the impact of major projects capitalized to plant in service. Since these additions were not in service for the entire period, a project added in the first half of the year would have a bigger impact on the rate base than one added in the latter half of the year.

In the 1983 test year, the Applicant has decided to change its method without providing sufficient evidence to support this change. The Commission is of the opinion that WKPL's previous practice should be maintained. A downward adjustment of $1.7 million to rate base is therefore assessed (Exhibit 16).

(c) Plant Purchases

The Ministerial Order gave approval to WKPL to purchase the three plants from Cominco at a price of $20 million. This value is higher than the original cost and hence the question arises as to the appropriate treatment for rate base purposes. In approving the Sale of Plants Amending Agreement, the Commission believed that the purchase was in the public interest and concurs with the Applicant's proposal to include the full amount in the rate base. The question of how the full amount should be allocated among different plant accounts does not materially affect this decision. However the allocation of the higher amount does have corporate taxation implications. There was a concern during the hearing whether or not WKPL could claim full capital cost allowance for the plant purchase price. The Commission believes that a tax ruling would be appropriate, and requires the Applicant to file with the Commission their application, any other material submissions and the related decision on the tax ruling.

3.8 Normalization Accounts

During volatile and changeable times which we have recently experienced, actual results occur with varying fluctuations from budgeted accounts. The past year, 1982 was a good example of fluctuating amounts with the result that many participants in the public hearing requested a revised treatment of normalizing or 'smoothing out' of a number of WKPL's accounts.

(a) Weather Normalization

A Weather Normalization Account was requested by WKPL to apply against revenue as it related to the severity of the weather experienced in the service area. A 'normal' year would be created and the resultant revenue level established. Any 'Over or Shorts' would be counted in a normalization account for adjustment in future years. WKPL applied for a Weather Normalization Account in Exhibit 25. As the Company pointed out over a 12 year period, the warmest year was 1981 and the coldest year was 1972; it works out that 1981 was 7.7% above and 1972 was 10% below the normal temperature. The 1981 normalization would be $17,080 after tax net earnings. The Commission finds that insufficient evidence has been produced at this time to support the Applicant's request (Exhibit 25). The Commission believes that in conjunction with Phase II further consideration could be given to this request and so instruct WKPL to submit additional information, if any, at that time.

(b) Interest Normalization

This proposed normalization account involved interest and the changing short-term interest rates that the Applicant has faced during recent years. Volatile interest rates have had an influence on the utility and the rates it charged its customers but the Company has been able to stabilize its long-term interest by refinancing $35 million of its short-term bank loan into long-term debts. The remaining debt balance of $18 million in bank loans is still a significant liability. The Commission appreciates the difficulty of forecasting short-term interest rates in recent years and therefore believes that an interest deferral account is necessary to protect both the shareholders and customers from future interest rate fluctuations. Short-term interest rates above or below 10.9% should be debited or credited to an interest deferral account, the balance of which will be included in the rate base and form part of the Company's next long-term financing.

(c) Power Purchase

Since 1981 WKPL has experienced fluctuating prices when it purchased blocks of power from other generating sources. This was a recent phenomenon that has not yet formed a long-term pattern. The ability of management to accurately forecast and prudently purchase power is paramount to the savings available to WKPL. The Commission believes that this incentive should be maintained and encouraged in order that both shareholders and customers alike can benefit from opportune purchases.

In the short run, exceptional savings should be management's prerogative to pursue and the reward of the shareholders but any longer term savings should be passed on to the customers through reduced rates or postponed rate increases. Therefore a power purchase normalization account is deemed not required at this time.

(d) Rate of Return

A final area that was recommended for a stablization account (Mr. Woodward, Transcript 1593) was that of the rate of return for the Company. Traditionally the Commission has believed that the companies that it regulates are given the opportunity to earn an allowed rate of return but that they are not given a guaranteed rate of return. While the difference may seem subtle, it is not. Rather it is the result of the individual company's management that produces the final return for their shareholders. This incentive should remain and therefore the request for a rate of return normalization account is not accepted.

3.9 Quality of Service

During the course of the hearing, very few complaints were heard about the service being provided by WKPL. The one area in which the Applicant was most severely criticized was its new billing form and payment procedures. This is being corrected. In addition, the Commission did receive a detailed report from a Rossland resident who complained of premature light bulb and electric element burnout which the resident claimed was a result of electric service from WKPL. This seemed to surprise the utility representatives and they assured the Commission that they would endeavour to track down the source of the complaint. A subsequent report confirmed that the fault did not seem to be in the WKPL system. While there were complaints there was also praise for the Applicant. In the Commission's opinion, the quality of WKPL service is not a problem at this time.

3.10 Inter-Company Charges

The relationship between a parent corporation and its wholly-owned subsidiary is always subject to concern and scrutiny from all sides but when they are dependent businesses and only one is regulated it is even more important that a detailed review is necessary especially in the area of inter-corporate charges.

For the first 11 months in 1982, WKPL was charged $16 million by Cominco. The bulk of the charges by Cominco was for power purchase - $6 million; plant lease - $3 million; taxes and water fees - $5 million; and the balance inter-company service charges. During this same period of time WKPL billed Cominco approximately $3 million. In 1983 the Cominco charges are forecast to reduce primarily because of the purchase of Plant Nos. 2, 3 and 4, previously leased.

From the outset it is assumed that both parties are operating at arms-length and dealing with each other in a prudent business manner but some concern must be raised in view of the following transactions:

- the inclusion of Cominco's spillage in the calculation of surplus power price (Transcript 1237).

- charges for carrying costs (Transcript 1161 to 1173) of tools and equipment by WKPL to Cominco are arbitrarily adjusted from time to time. The formula determining these changes seems to vary each year for no valid reason.

- WKPL has been agent for Cominco not only in management of the plants but also in export of power, and the preparation and participation in N.E.B. hearings. There has not been a detailed formula to compensate WKPL for actual time and effort expended.

In the future the Commission requires WKPL to apply for Commission approval before any material inter-company contractual changes or new agreements are introduced.

4. THE RATE DECISION

While the previous items are important and related to the WKPL application — primarily the Application was for a rate increase. The Commission Order No. G-89-82 set down the date of the public hearing and denied the interim increase request "subject to further consideration by the Commission during the forthcoming public hearing scheduled approximately three weeks thereafter." During the hearing, an interim increase was not awarded to the Applicant but consideration was given to provision of an interim award before the final decision was made available. In the alternative, the Commission established firm rates on March 4, 1983.

4.1 Interim Increase

The Commission endeavoured to expeditiously set hearing dates, hold the hearing and arrive at the decision without jeopardizing the quality of the results. An interim increase is utilized most often when the time between the application and the decision is unduly long and onerous on the regulated utility. In this instance the time period was relatively short. In addition to the short time period, the initial presentation and the submissions made during the hearings were modified by numerous adjustments that in the main, reduced the dollar amount needed and the resultant rate of increase required.

On March 4, 1983 the Commission issued Order No. G-18-83 which authorized a 4.5% firm increase with the reasons for the decision to follow. This Order recognized the importance of issuing an increase as well as the timely importance of not waiting for the written copy of the decision.

4.2 The 1983 Increase

The Commission through Order No. G-18-83 has awarded a uniform increase in rates of 4.5%. However, there may be an adjustment as a result of the Rate Design, which the Company plans to submit later this year. In arriving at the decision the following adjustments were made to the Rate Base and the Cost of Service:

(a) Rate Base

(i) Distribution Line Extensions

Weak and inconsistent forecast methodology, controversial customer addition updates and excessive investment cost for new customers resulted in downward adjustments to the Plant Additions Account which totalled $1,049,100. In addition the Applicant revised distribution upgrading down by $596,000.

(ii) Escalation

The Plant in Service escalation rate was reduced from 10.8% to 7.6%. This 3.2% reduction carried a $356,600 reduction in the account.

(iii) AFUDC

As discussed earlier in the decision, the Commission accepts the Applicant's treatment for determining the allowance for AFUDC.

(iv) Hearing Costs

The adjustment of the Applicant's submission to reflect the Commission's recent decision on hearing costs would reduce the deferred hearing cost amount by approximately $302,000 in 1982 and approximately $142,000 in 1983 .

(v) Major Additions Adjustment

The normal practice of the Company in the past has been to adjust the rate base as major projects have come along. The practice should be maintained with the result that a downward rate base adjustment of $1.69 million is required.

(vi) Work in Progress Subject to AFUDC

As discussed in 3.7(a), work in progress of $1.7 million is removed from the rate base.

(b) Cost of Service

(i) Rate Hearing Costs

The August 25, 1982 Decison of the Commission did not allow the full WKPL costs of the hearings to be included in the Cost of Service. Thus approximately $91,500 amortization expense is not allowed in this Application.

The actual costs of $148,000 for this current hearing will be amortized over two years commencing in 1983. The Cost of Service Study costs were not included in the 1983 year by the Commission because this was to be a part of the Rate Design Hearing (the application has not yet been filed). The 1983 adjustments totalled $139,501.

The Commission has considered the requests for payment of costs by intervenors. Although there were valuable contributions received the Commission disallows applications for cost. The main benefit of their participation has been received by their principals through a reduction in the amount of increase awarded to WKPL.

(ii) Power Purchase

In 1982 WKPL paid Cominco $715,000 more than forecast due in large part to including spillage in the calculation of the price paid by WKPL. The relationship between Cominco and WKPL is that of vendor and purchaser of power respectively. Neither in the Canal Plant Agreement nor in the Sale of Surplus Power Agreement nor its predecessors are there provisions that the purchaser's price is to vary depending upon whether or not the vendor uses, sells or spills power not taken by the purchaser. The cost of spillage incurred because the power is not needed by Cominco or cannot be sold by Cominco cannot be passed on to WKPL in the form of an adjustment in the purchase price. Therefore, an amount of $411,000 was disallowed from the Cost of Service.

The Commission therefore directs WKPL take the appropriate steps to recover the funds from Cominco and ensure that this does not occur again in the future.

(c) Capital Structure

(i) Rate of Return

The rate of return on common equity for WKPL was established at 17.5% during a previous hearing. During the interim a variety of changes have occurred in the economic and financial sector of the economy. A great many businesses would like to earn a profit let alone be allowed to earn the rate of return requested by WKPL. Dr. Sherwin gave expert testimony on the needs of a utility to sustain and maintain earnings in order to attract funds in the future. The Commission concurs in this regard. However, he did admit that not only is the allowed rate slightly high at present but also that no single number is the only answer to the rate of return question and that there could be a band or range of numbers that would be acceptable. This range was suggested as being between 16.25% and 16.50%. This the Commission believes is too high in the light of the current economic realities and that a range of 15.0% to 16.0% is more appropriate. The Commission believes strongly that the utility must maintain its financial integrity and continue to have an opportunity to earn a reasonable return during a 12-month period that would ensure financial stability in the future. Thus the rate of return on common equity is set at 15% to 16% and the rate of return for the test period is calculated to be 15.4%.

(ii) Cost of Debt

The estimated cost of debt used in the 1983 cost projections was agreed to be at 12.10% as proposed by the Applicant in its most recent estimate after completion of the new long-term financing. This is a combination of the new long-term rates as well as an estimate of the rate on WKPL's bank debt.

(iii) Notional Debt

In the last decision the Commission allowed WKPL to balance its rate base with its capital structure by using notional debt. The Commission has considered the evidence and the arguments and accordingly has deleted notional debt.

All of these adjustments are shown in the Schedules of this Decision. The rate base is reduced from $99.2 million to $96.2 million and the revenue deficiency would be $2.3 million and would require 4.5% increase in rates on a 12-month basis.

4.3 Deferred Taxes

The complexity of the matter of the treatment of taxes, either on a 'flow through' or a 'deferred' basis, warrants a separate review. The earliest the review could be conducted would be in conjunction with the proposed rate design hearing due this summer. The Commission instructs WKPL to file their evidence in this regard, simultaneously with the rate design filing.

DATED at the City of Vancouver, in the Province of British Columbia, this 31st day of May, 1983.

M. Taylor

M. Taylor, Chairman

J.D.V. Newlands, Deputy Chairman

N. Martin

N. Martin, Commissioner

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 West Kootenay Power and Light Company, Limited

BEFORE:	M. Taylor, Chairman; J.D.V. Newlands, Deputy Chairman; and N. Martin, Commissioner	March 4, 1983

O R D E R

WHEREAS West Kootenay Power and Light Company, Limited ("WKPL") applied November 15, 1982 pursuant to the applicable provision of Section 67 of the Act, to amend with the consent of the Commission certain of the terms and conditions and rate schedules of its electric tariff filed with the Commission; and

WHEREAS in initial request from WKPL sought an interim increase of 9.8% effective January 1, 1983, and a second request from WKPL sought a modified interim increase of 8.7% effective February 1, 1983; and

WHEREAS a public hearing of the Application commenced at Rossland, B.C. on January 25, 1983 and concluded in Vancouver, B.C. on February 7, 1983; and

WHEREAS the Commission has considered the Application and supporting material and the evidence adduced at the public hearing.

.../2

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

1. A permanent increase of 4.5% applicable to all classes of service contained in the Application is authorized effective with consumption on and after March 1, 1983.

2. The Commission will accept for filing, subject to timely filing thereof Tariff Rate Schedules appropriately amended to reflect the increment authorized.

3. The award of the permanent increase as above-noted is subject to the Directions of the Commission as contained in the Reasons for Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 4th day of March, 1983.

BY ORDER

M. Taylor

Chairman

SCHEDULE I

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Forecast Rate Base for 1983

	Per Application Forecast 1983	Commission Adjustments	Adjusted Balance
Plant in Service for Rate Base Purposes	$146,461,479	(a)$(1,645,100) (b) (356,600) (c) (42,000)	$144,417,779
-Plant held for future use	102,573		102,573
-Deferred rate application expenses	352,509	(d) (142,373)	210,136
	146,916,561		144,730,488
Less-Accumulated Depreciation	34,906,696		34,906,696
-Credit in unamortized gain on purchase	122,310		122,310
-Deferred Credit on sale of Head Office	203,062		203,062
-Contributions in aid of construction	10,433,914		10,433,914
	45,665,982		45,665,982
Depreciated Rate Base	101,250,597*		99,064,506
Depreciated rate base for previous year	88,981,838	(d) (301,874)	88,679,964
Mean Depreciated Rate Base	95,116,218		93,872,235
Add-Allowance for working capital	4,050,000		4,050,000
Less-Adjustment for major additions	-	(e) (1,691,350)	(1,691,350)
Depreciated Rate Base For Regulatory Purposes	99,166,218		96,230,885
Work in Progress subject to AFUDC	1,720,500	(f) (1,720,500)	-
Total Rate Base	$100,886,718		$ 96,230,885

* Adding error per Application

NOTES TO SCHEDULE I

(a) Distribution Line Extensions
(Exhibit 1, Tab 6, Page 8, Exhibit 38 a, b and c)

Adjustment to reflect excessive investment of $600 per customer (1980 $)

$600 x 1,300 x 1.345 =	$(1,049,100)
Reduced upgrading (letter of Feb. 16/83)	(596,000)
	$(1,645,100)

(b) Escalation Factor
(Exhibit 3, Page 7, Exhibit 39)

Adjusted Capital Addition:

$(13,993,000 - 1,645,100 (a)) = $12,347,900

Escalation adjustment reduced from 10.8% to 7.6%

$12,347,900 - [(12,347,900 / 1.108) x 1.076] =	$(356,600)

(c) Overprovision of AFUDC
(Transcript Page 1316)

Note: No adjustment is made to account for insignificant difference due to revised calculation by use of cost of capital at 12.29% vs. Applicant's original forecast at 13%.

$(42,000)

(d) Hearing Cost
(Exhibit 1, Tab 5, Page 18, and Tab 6, Page 2)

Per Application	$352,509	
Per allowed balance:	210,136	
Disallowance		$ (142,373)

Adjustment to Depreciated Rate Base for Previous Year

Per allowed balance	$170,170	
1982 per Application (Exhibit 1, Tab 6, Page 2)	472,044	
		$ (301,874)

NOTES TO SCHEDULE I
(cont'd)

(e) Adjustment for Major Additions
(Exhibit 16)

Per Application	-	
Per Commission Adjustment	$1,741,650	
Less: Escalation Factor Per (b):		
$1,741,650 - [(1,741,650 / 1.108) x 1.076]	50,300	
		$(1,691,350)

(f) Removal of Work in Progress
Subject to AFUDC from Rate Base

(Exhibit 1, Tab 6, Page 1) $(1,720,500)

SCHEDULE II

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Forecast Net Earnings and Return for 1983

	Forecast 1983 Per Application	Applicant's Amendment	Forecast 1983 Amended	Commission Adjustments	Adjusted Balance
Consumption (Mwh)	2,241,900	-	2,241,900	-	2,241,900
Operating Revenue	$ 52,093,590	$(7,700)	$ 52,085,890	$ -	$52,085,890
Revenue Deficiency	5,040,300	(1,062,563)	3,977,737	(1,651,394)	2,326,343
				(a)(139,501)	
Operating Expenses	38,477,193	(408,010)	38,069,183	(b)(411,000)	37,518,682
Earnings from Operations	18,656,697		17,994,444		16,893,551
Other Income	989,071	(54,000)	935,071		935,071
	19,645,768		18,929,515		17,828,622
Income Taxes	6,585,482		6,585,482		6,001,846
EARNED RETURN	$ 13,060,286		$ 12,344,033		$11,826,776
RETURN ON RATE BASE					
Utility Rate Base	$ 99,166,218		$ 99,166,218		$96,230,885
Average Work-in-Progress Subject to AFUDC	1,720,500		1,720,500		-
	$100,886,718		$100,886,718		$96,230,885
Return on Rate Base	12.95%		12.24%		12.29%

*Increase required: $\frac{2,326,343}{51,431,000}$ = 4.5%

NOTES TO SCHEDULE II

(a) Removal of Disallowed Hearing Costs
(Exhibit 1, Tab 5, Page 18)

$(49,065 + 20,996 + 21,440) =	$91,501	
1983 Cost of Service	30,000	
1983 Application amortized over 2 years*	18,000	
		$(139,501)

*Forecast	$92,000
Actual $148,000 amortized over 2 years	74,000
Difference	$18,000

(b) Power Purchase
(Exhibit 1, Tab 11, Page 6, Exhibit 19, Transcript Pg. 1,282)

Surplus power price to exclude effect of spillage (10.965 - 10.340*) x 658 Gwh	411,000	
		$(411,000)

* Total Cominco Operating Costs (Exhibit 3, page 8)	$19,882,004
1983 Forecast Entitlement Use (1980, 1981 and forecast 1982 per Exhibit 4 of 1982 hearing)	3,288 Gwh
Cost, mills per Kwh	6.047
Rate based on 1979 cost	(1.934)
	4.113
1979 Purchase Rate	6.227
1983 Rate	10.340

SCHEDULE III

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Calculation of Income Tax on Utility Income

	Forecast 1983 Per Application	Applicant's Amendment	Forecast 1983 Amended	Commission Adjustments	Final Balance
Net Utility Income	$ 19,645,768	$ (716,253)	$ 18,929,515	$(1,100,893)	$17,828,622
Amortization of Deferred Credits	(205,731)	-	(205,731)	-	(205,731)
Interest on Debt	(6,991,109)	716,253	(6,274,856)	(2,390)	(6,277,246)*
Taxable Income	$ 12,448,928	-	$ 12,448,928	$(1,103,283)	$11,345,645
Income Tax @ 52.9%	$ 6,585,482	-	$ 6,585,482	$ (583,636)	$ 6,001,846

* Total Rate Base	$ 96,230,885
Return on debt portion (see Schedule V) = 53.91% x $96,230,885 x 12.10%	$ 6,277,246

SCHEDULE IV

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Common Equity as at December 31, 1983

Common Share Equity at Dec. 31, 1982		$35,514,000
Add: Forecast Net Income for 1983		5,672,000*
Less: Forecast Dividend Payments		
	- Common	(3,000,000)
	- Preferred	(35,000)
Balance Forecast at December 31, 1983		$38,151,000
Mid-Year Common Equity		$36,833,000

* 15.4% x $36,833,000

SCHEDULE V

WEST KOOTENAY POWER AND LIGHT COMPANY, LIMITED

Capitalization for Regulatory Purposes for the Year Ending December 31, 1983

WITH RATE INCREASE

	Per Applic. 1983 Mean	Applicant's Amendment	Forecast 1983 Amended	Commission Adjustments	Adjusted Balance	Component %	Rate %	Average Cost %
Deferred Income Taxes	$ 8,322,000	-	$ 8,322,000	-	d)$ 8,322,000	8.40	-	-
DEBT								
Long and Short Term Debt	54,981,044	$(1,763,878)	53,217,166	a)$ 174,429	53,391,595	53.91	12.10	6.52
Notional Debt	35,085	1,763,878	1,798,963	b) (1,798,963)	-			
EQUITY								
Preferred Shares	500,000	-	500,000	-	500,000	.50	7.00	.04
Common Shares	37,048,589	-	37,048,589	c) (215,589)	36,833,000	37.19	15.40	5.73
Total Capitalization	$100,886,718		$100,886,718		$99,046,595	100.00		12.29

NOTES:

a) Difference per revision by WKPL, letter of February 16, 1983.

b) Removal of notional debt, page 22 of this decison.

c) Difference due to return of 16.28% per Application and 15.40% approved.

d) No adjustment is made to account for insignificant changes in timing differences and deferred taxes.