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| BRITISH COLUMBIA UTILITIES COMMISSION | |
| ORDER | |
| NUMBER | G-26-89 |

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
Northland Utilities (B.C.) Limited

| | | | |
|---------|---------------------------|---|--------------|
| BEFORE: | J.D.V. Newlands, |) | |
| | Deputy Chairman and |) | |
| | Chairman of the Division; |) | |
| | W.M. Swanson, Q.C., |) | May 10, 1989 |
| | Commissioner; and |) | |
| | W.A. Best, |) | |
| | Commissioner |) | |

O R D E R

WHEREAS a public hearing pertaining to Northland Utilities (B.C.) Limited's ("Northland") Application dated December 20, 1988 for a general rate increase proceeded before the Commission at Dawson Creek, B.C. on April 11, 1989; and

WHEREAS pursuant to Order No. G-1-89 Northland was granted an interim, refundable rate increase of 6.51% effective January 20, 1989 for the 1989 test year and an additional 1.7% over existing rates effective January 1, 1990 for the 1990 test year; and

WHEREAS the Commission has considered the Application and evidence adduced thereon, all as set forth in the Reasons for Decision issued concurrently and attached as Appendix A to this Order.

NOW THEREFORE the Commission hereby orders Northland Utilities (B.C.) Limited as follows:

1. The Commission confirms as firm, the interim rates in effect on January 20, 1989.
2. The Commission will accept, subject to timely filing, amended Gas Tariff Rate Schedules which conform to the terms of the Commission's May 10, 1989 Reasons for Decision.

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**BRITISH COLUMBIA
UTILITIES COMMISSION**

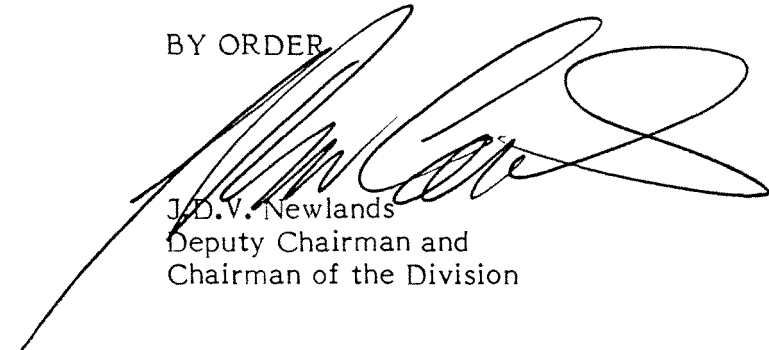
ORDER

NUMBER G-26-89

3. Northland shall comply with all of the directions of the Commission contained in the attached Reasons for Decision issued concurrently.

DATED at the City of Vancouver, in the Province of British
Columbia, this 10th day of May, 1989.

BY ORDER



J.D.V. Newlands
Deputy Chairman and
Chairman of the Division

Attachment
38I/48/ac

REASONS FOR DECISION

*Does this go
with Order
No. 6-26-89?*

APPENDIX A

(i) Marketing

Northland Utilities (B.C.) Limited ("Northland") states at p. 8 of its Application:

"Residential and commercial sales are forecast to remain relatively unchanged. As shown on the schedule below, sales per customer have decreased since 1983 by 9.5% for residential customers and 13.8% for commercial customers."

At p. 9 of the Application, Northland states:

"Northland forecasts that the decline in sales per customer for residential and commercial customers have begun to level off."

At Transcript pp. 21-35, Northland responds to questions concerning declining sales, sales forecasts and marketing effort. The Company stated that declining sales have been a direct result of fuel price shocks of the mid-1970's and the energy conservation response of consumers. At Tab 2, p. 3 of Exhibit 4 the Company says:

"The Company has maintained its market share with respect to residential and commercial space and water heating appliance markets, with penetration levels of 99% and 95% respectively. Market penetration of natural gas ranges and clothes dryers has been maintained at recent historic levels of approximately 15%."

The Company stated that there is no significant competition for natural gas for space and water heating load due to relatively low natural gas prices in the service area. It also stated that the low penetration of natural gas ranges and clothes dryers is historical and related to the relatively high natural gas appliance and installation costs. The Commission would encourage the Applicant to seek solutions to installation costs and to promote the benefits of natural gas for cooking and clothes dryers.

At Transcript pp. 33-35, the Company responds to questions about the market for natural gas for vehicles ("NGV") and acknowledges that an apparently successful NGV outlet exists in Fort St. John where the market and alternative transportation fuel prices are similar to those in Dawson Creek.

In view of the forecasted limited growth potential for traditional natural gas load in Dawson Creek, the Commission encourages Northland to carefully assess the viability of marketing NGV in its service area through an aggressive and competent NGV retailer.

(ii) Dawson Creek System Operating Pressures

Evidence was presented by Northland in the 1983 Rate Hearing to support its position that the Company would be unable to meet its system load in peak conditions if the low delivery pressures from Westcoast were to persist into the next heating season. To overcome this situation, the Company proposed to construct a 168 mm loop parallel to the existing 114 mm feeder main at an estimated cost of \$200,000. At the Commission's suggestion the Company investigated alternatives and in the interim obtained a no-cost commitment from Westcoast that its main line pressure would be sufficient during the winter of 1983/84 for Northland to maintain supply. The Commission, in its Decision of December 16, 1983, requested Northland to forward an analysis of alternatives to the looping project.

The Commission notes that subsequent to its December 16, 1983 Decision, Northland successfully negotiated a conditional increase in its minimum contract supply pressure from 100 psig to 150 psig. The terms of this agreement with Northland's supplier, Peace River Transmission Company Limited ("Peace River"), are contained in the April 13, 1987 letter agreement between Northland and Inland Natural Gas Co. Ltd. (the parent company of Peace River). This letter agreement can be found at the end of Exhibit 4, Tab 3. The cost to Northland for this increase in pressure will be the monthly cost of service associated with the pipeline improvements to be made

by Westcoast to provide higher pressure to Peace River which, in turn, will provide 150 psig to Northland. The Westcoast capital cost for providing this pressure increase is estimated to be approximately \$50,000.

The Commission notes that Northland has also been successful in having its Pipeline Act operating permit modified to allow operation of the gas distribution system at 150 psig.

Prior to finalizing the agreement with Peace River for increase in minimum supply pressure, Northland is requested to advise the Commission by November 1, 1989 what load increase can be accommodated by minimum supply pressure of 150 psig, to estimate when such load will be realized, and to advise whether there is an economic advantage to achieving higher minimum contract supply pressure.

(iii) Hearing Costs

Due to the participation and cooperation of all parties, the hearing costs have been significantly reduced and the hearing expedited.

(iv) Regulatory Process

The Applicant responded to the Commission's invitation to suggest enhancement to the regulatory process. The Commission has considered the evidence inconclusive at this time.

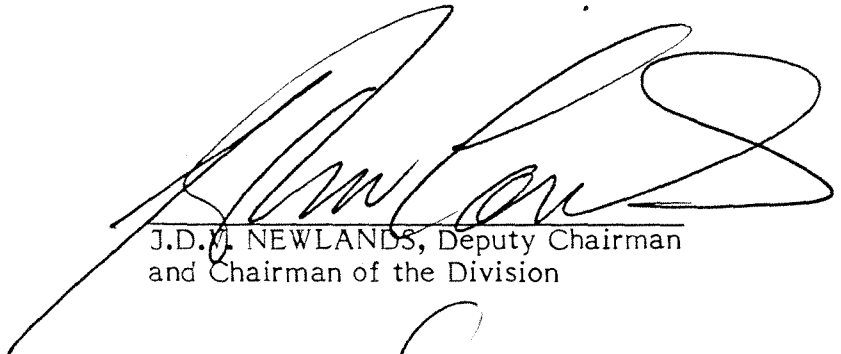
(v) Decision

The Commission orders as follows:

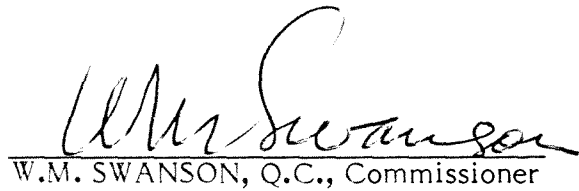
1. Northland is to adopt mid-year deferred income tax balance as a deduction in rate base to be consistent with the Decision dated December 16, 1983.

2. Northland is to achieve a mid-year common equity component of approximately 40% in fiscal 1990.
3. A fair and reasonable rate of return on common equity for Northland should be in the range of 14.00% to 14.75% for test years 1989 and 1990.
4. Northland is to expense and write-off for income tax purposes total hearing costs of approximately \$17,000 in 1989, as opposed to the Application provision of \$30,000 for a two-year amortization. The Commission recognizes that the Applicant's proposed period is more appropriate in view of the two test years application, however the Commission adopts the one-year amortization in this particular case to maintain rate stability.
5. The interim increase of 6.51% effective January 20, 1989 approved by Order No. G-1-89 is hereby confirmed. Northland is to increase its rates by a further 0.92% over its current existing rates effective January 1, 1990 as a result of Adjustments 1. to 4. above, rather than 1.7% approved as interim rates in Order No. G-1-89. As a result, Northland is given the opportunity to earn a normalized rate of return on common equity of 14.6% in 1989 and 14.5% in 1990 as shown in the attached Schedules I to IV.
6. Northland is to increase its monthly fixed charges from \$3.00 to \$5.00 to all customers effective January 1, 1990. Revised tariff schedules together with a reconciliation of rates must be submitted to the Commission for approval 30 days prior to the effective date.

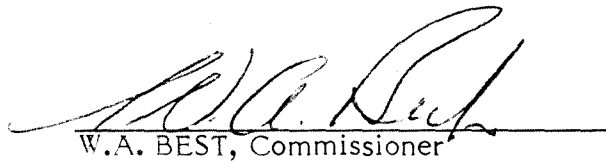
DATED at the City of Vancouver, in the Province of British Columbia,
this 10th day of May, 1989.



J.D.M. NEWLANDS, Deputy Chairman
and Chairman of the Division



W.M. SWANSON, Q.C., Commissioner



W.A. BEST, Commissioner

NORTHLAND UTILITIES (B.C.) LIMITED

Schedule I

UTILITY INCOME AND EARNED RETURN (\$000)

| FISCAL 1989 ===== | Per Application (DEC. 20, 1988) | Applicant's Adjustments | Amended 1989 | Commission Adjustments | Adjusted Balances |
|-----------------------------|------------------------------------|----------------------------|-----------------|---------------------------|----------------------|
| SALES VOLUME (TJ) | 1,287 | | 1,287 | | 1,287 |
| UTILITY REVENUE | | | | | |
| Gas sales | \$4,099 | | \$4,099 | | \$4,099 |
| Other | 1 | | 1 | | 1 |
| Revenue deficiency | 267 | | 267 | | 267 |
| Total | 4,367 | | 4,367 | | 4,367 |
| Less- Cost of gas | 2,650 | | 2,650 | | 2,650 |
| Gross margin | 1,717 | | 1,717 | | 1,717 |
| OPERATING EXPENSES | | | | | |
| Transmission & distribution | 407 | | 407 | | 407 |
| Marketing | 17 | | 17 | | 17 |
| Customer Accounting | 223 | | 223 | | 223 |
| Administration | 254 | | 254 | 2 [1] | 256 |
| Taxes - other | 124 | | 124 | | 124 |
| Depreciation | 134 | | 134 | | 134 |
| Other expenses | 1,159 | | 1,159 | | 1,161 |
| Utility income before taxes | 558 | | 558 | | 556 |
| Income taxes-current | 123 | | 123 | | 126 |
| -deferred | 30 | | 30 | | 24 |
| Total | 153 | | 153 | | 150 |
| EARNED RETURN | \$405 | | \$405 | | \$406 |
| UTILITY RATE BASE | \$3,251 | | \$3,251 | | \$2,983 |
| RETURN ON RATE BASE * | 12.46 | | 12.46 | | 13.61 |

[1] Total hearing cost amortized in 1989.

NORTHLAND UTILITIES (B.C.) LIMITED
UTILITY INCOME AND EARNED RETURN (\$000)
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Schedule 1A
=====

| FISCAL 1990 ===== | Per Application (DEC. 20, 1988) | Applicant's Adjustments | Amended 1990 | Commission Adjustments | Adjusted Balances |
|-----------------------------|------------------------------------|----------------------------|-----------------|---------------------------|----------------------|
| SALES VOLUME (TJ) | 1,291 | | 1,291 | | 1,291 ~ |
| UTILITY REVENUE | | | | | |
| Gas sales | \$4,131 | | \$4,131 | | \$4,131 |
| Other | 1 | | 1 | | 1 |
| Revenue deficiency | 342 | | 342 | (35) [1] | 307 |
| Total | 4,474 | | 4,474 | | 4,439 ~ |
| Less- Cost of gas | 2,678 | | 2,678 | | 2,678 |
| Gross margin | 1,796 | | 1,796 | | 1,761 |
| OPERATING EXPENSES | | | | | |
| Transmission & distribution | 448 | | 448 | | 448 |
| Marketing | 18 | | 18 | | 18 |
| Customer Accounting | 236 | | 236 | | 236 |
| Administration | 266 | | 266 | (15) [2] | 251 |
| Taxes - other | 131 | | 131 | | 131 |
| Depreciation | 138 | | 138 | | 138 |
| Other expenses | | | | | |
| | 1,237 | | 1,237 | | 1,222 |
| Utility income before taxes | 559 | | 559 | | 539 |
| Income taxes-current | 133 | | 133 | | 110 |
| -deferred | 21 | | 21 | | 27 |
| Total | 154 | | 154 | | 137 |
| EARNED RETURN | \$405 | | \$405 | | \$402 |
| UTILITY RATE BASE | \$3,268 | | \$3,268 | | \$2,974 |
| RETURN ON RATE BASE % | 12.39 | | 12.39 | | 13.52 |

[1] Commission adjustment to revenue deficiency.
[2] Reduced hearing cost.

Schedule II
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NORTHLAND UTILITIES (B.C.) LIMITED
UTILITY RATE BASE (\$000)
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| FISCAL 1989 FORECAST ===== | Per Application (DEC. 20, 1988) | Applicant's Adjustments | Amended | Commission Adjustment | Adjusted Balances |
|-------------------------------|------------------------------------|----------------------------|---------|--------------------------|----------------------|
| Gross plant | \$6,956 | | \$6,956 | | \$6,956 |
| Accumulated depreciation | (1,729) | | (1,729) | | (1,729) |
| Less: Contributions | (2,332) | | (2,332) | | (2,332) |
| Plus: Amort. Contributions | 174 | | 174 | | 174 |
| End of year base | 3,069 | | 3,069 | | 3,069 |
| Beginning of year base | 3,076 | | 3,076 | | 3,076 |
| Ave. value of facilities | 3,073 | | 3,073 | | 3,073 |
| Deferred taxes | | | | (260) [1] | (260) |
| Working capital allowance | 178 | | 178 | (8) [2] | 170 |
| Utility Rate Base | \$3,251 | | \$3,251 | | \$2,983 |
| | ===== | | ===== | | ===== |

| | | | | | |
|-------------------------------|---------|--|---------|-----------|---------|
| FISCAL 1990 FORECAST ===== | | | | | |
| Gross plant | \$7,125 | | \$7,125 | | \$7,125 |
| Accumulated depreciation | (1,914) | | (1,914) | | (1,914) |
| Less: Contributions | (2,351) | | (2,351) | | (2,351) |
| Plus: Amort. Contributions | 221 | | 221 | | 221 |
| End of year base | 3,081 | | 3,081 | | 3,081 |
| Beginning of year base | 3,069 | | 3,069 | | 3,069 |
| Ave. value of facilities | 3,075 | | 3,075 | | 3,075 |
| Deferred taxes | | | | (286) [1] | (286) |
| Working capital allowance | 193 | | 193 | (8) [2] | 185 |
| Utility Rate Base | \$3,268 | | \$3,268 | | \$2,974 |
| | ===== | | ===== | | ===== |

- [1] Deferred tax as deduction from Rate Base.
[2] Reduced hearing cost provisions.

NORTHLAND UTILITIES (B.C.) LIMITED

Schedule III
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CALCULATION OF INCOME TAXES ON UTILITY INCOME (\$000)
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| | FORECAST 1989 | - | FORECAST 1990 |
|--|---------------|-----|---------------|
| Income before taxes | \$556 | | \$539 |
| Deduct: interest on debt | (206) | [1] | (220) |
| Add: non-tax deductible expenses (net) | | | |
| Accounting income after tax | 350 | | 319 |
| Deduct: timing differences | (55) | [2] | (63) |
| Taxable income after tax | 295 | | 256 |
| Tax at 42.84% | 126 | | 110 |
| Deferred income tax | 24 | | 27 |
| TOTAL | \$150 | | \$137 |
| | ===== | | ===== |

- [1] Interest expense based on forecast balances and rates.
[2] Timing differences adjusted to reflect hearing cost reductions.

NORTHLAND UTILITIES (B.C.) LIMITED

Schedule IV
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RETURN ON CAPITAL (\$000)
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| FISCAL 1989 FORECAST ===== | Capitalization per Application | Commission Adjustments | Capitalization Amount | Percentage % | % Average Embedded Cost | Cost Component % |
|-------------------------------|-----------------------------------|---------------------------|---------------------------|--------------------------|----------------------------|-------------------------|
| Long Term Debt | \$1,547 | | \$1,547 | 54.82 | 13.320 | 7.30 |
| Reserve for injury/damages | 56 | | 56 | 1.98 | | 0.00 |
| Deferred taxes | 263 | [1] (263) | 0 | 0.00 | | 0.00 |
| Common Equity | 1,219 | | 1,219 | 43.20 | [3] 14.606 | 6.31 |
| | ----- \$3,085 ===== | | ----- \$2,822 ===== | ----- 100.00 ===== | | ----- 13.61 ===== |

| FISCAL 1990 FORECAST ===== | Capitalization per Application | Commission Adjustments | Capitalization Amount | Percentage % | % Average Embedded Cost | Cost Component % |
|-------------------------------|-----------------------------------|---------------------------|---------------------------|--------------------------|----------------------------|-------------------------|
| Long Term Debt | \$1,541 | [2] \$114 | \$1,655 | 58.04 | 13.300 | 7.72 |
| Reserve for Injury/damages | 56 | | 56 | 1.96 | | 0.00 |
| Deferred taxes | 289 | [1] (289) | 0 | 0.00 | | 0.00 |
| Common Equity | 1,254 | [2] (114) | 1,140 | 40.00 | [3] 14.500 | 5.80 |
| | ----- \$3,140 ===== | | ----- \$2,851 ===== | ----- 100.00 ===== | | ----- 13.52 ===== |

- [1] Deferred tax as deduction from Rate Base.
 [2] Equity at 40% with difference as Long Term Debt.
 [3] Approved Return on Common Equity.